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, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Yun Sky Chemical (International) Holdings Limited, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or another agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire or subscribe for securities.

Yun Sky Chemical (International) Holdings Limited
南 嶺 化 工 (國 際) 控 股 有 限 公 司

(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 NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

兆豐資本
Mega Capital

A notice convening an extraordinary general meeting of Yun Sky Chemical (International) Holdings Limited to be held at 12:00 noon on 7 December 2009 at Room 1211, 12/F., New World Tower 1, No. 18 Queen's Road Central, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of such meeting 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.

18 November 2009

CONTENTS

In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

"Acquisition"	the acquisition of the Sale Shares pursuant to the Sale and Purchase Agreement
"Announcement"	the announcement of the Company dated 23 September 2009 relating to, amongst others, the Acquisition
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Bank"	Shenzhen Branch of China Minsheng Banking Corp. Ltd.
"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 circular
"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 of the Company, as set out in the paragraph headed "Convertible Notes" in this circular
"Conversion Shares"	the new Shares to be allotted and issued upon exercise of the Conversion Rights
"Convertible Notes"	the convertible notes in aggregate 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
"Enlarged Group"	the Group immediately after Completion
"Group"	the Company and its subsidiaries

"Hengtai"	Eerduosi Hengtai Coal Company Limited (鄂爾多斯市恒泰煤炭有限公司), 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 Party(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 the Announcement
"Latest Practicable Date"	13 November 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 December 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 which 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
"PRC Legal Advisers"	Zhong Lun Law Firm, the Company's legal advisers as to PRC law
"Purchaser"	Magic Field International Limited, a company incorporated in 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 circular
"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 the Target Company
"Shanxi Hengchuang"	Shanxi Hengchuang Industrial Co., Ltd. (山西恒創實業有限公司), a company established in 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 PRC with limited liability and owned as to 99% by Shangxi Hengchuang and 1% by an Independent Third Party following completion of the PRC Acquisition
"Share(s)"	the ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"sq. km."	square kilometers
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Company"	Triumph Fund A Limited, a company incorporated in the Cayman Islands with limited liability and wholly-owned by the Vendor
"Target Group"	comprising the Target Company, Shanxi Hengchuang, Shanxi Puhua and Hengtai
"US$"	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 circular, 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 any relevant dates at the above rates or at any other rates at all.

Yun Sky Chemical (International) Holdings Limited
南嶺化工(國際)控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 00663)

Executive Directors:
Ms. Liu Yee Nee *(Chairman)*
Mr. Wang Da Yong *(CEO)*
Mr. Li Wei *(CEO)*
Ms. Louie Mei Po
Ms. Zhou Jing

Independent Non-executive Directors:
Mr. Ng Wai Hung
Mr. Jacobsen William Keith
Mr. Wu Wang Li

Registered Office and Principal Place of Business in Hong Kong:
Room 1211, 12/F.,
Tower 1, New World Tower
18 Queen's Road Central
Hong Kong

18 November 2009

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF TRIUMPH FUND A LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement in which the Board announced that 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).

This circular provides you with, among other things, (i) further details of the Acquisition, the Put Option and the Convertible Notes; (ii) information required under Chapter 14 of the Listing Rules; (iii) technical report on the Coal Mines; and (iv) a notice of the EGM.

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 between the Purchaser and the Vendor. Please refer to Appendix V to this circular for the valuation report relating to the Coal Mines.

As at the date of the Announcement, the aggregate preliminary value indication of the Coal Mines estimated by B.I. Appraisals Limited was 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 B.I. Appraisals Limited, 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.

As advised by the directors of the Shanxi Puhua, upon the acquisition of Hengtai as a subsidiary by Shanxi Puhua in July 2008, the mining rights owned by Hengtai has been recognized at fair value of RMB2.873 billion in preparation of the consolidated accounts of Shanxi Puhua. Such fair value of RMB2.873 billion is determined at the valuation base date in July 2008. At 31 December 2008, due to economic crisis and significant decrease in coal prices, the consolidated accounts of Shanxi Puhua recognized an impairment provision of RMB1.396 billion and the net carrying value of the mining rights decreased to RMB1.477 billion at 31 December 2008. The coal price slightly rebounded during the six months ended 30 June 2009 and part of the impairment provision which amounted to around RMB53 million has been reversed during the six months ended 30 June 2009 in the consolidated accounts of Shanxi Puhua (please refer to financial information set out in Appendix II in this circular).

As advised by B.I. Appraisal Limited, the subject matter of its valuation is the Coal Mines as a whole. In arriving at the valuation, the valuer has taken into consideration the fact that the Coal Mine No. 1 has been developed to a stage of production test running. In other words, the valuation has taken into account, other than the mining rights, the substantial amount of capital expenditure that has already been expended in the mine development. In addition, the coal price increased in recent valuation date of September 2009 covered in Appendix V to this circular when compared with 30 June 2009 and December 2008 so that the valuation in Appendix V to this circular is well above the carrying value of mining rights at 30 June 2009 and 31 December 2008.

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 of the Target Group 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. Any excess consideration paid by the Purchaser arising from such reduction shall be refunded by the Vendor in cash.

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.

As at the Latest Practicable Date, only the conditions set out in paragraphs (e) & (f) above have been fulfilled.

Completion

Completion shall take place at 3:00 p.m. 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 cancelling 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 Company will comply with, among others, Rule 14.75(2) of the Listing Rules, upon exercise of the Put Option.

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. In accordance with Rule 14.77 of the Listing Rules, the Company will make an announcement as soon as practicable upon the expiry of the Put Option or when the Purchaser notifying the Vendor that the Put Option will not be exercised.

However, in the event that the Vendor subsequently becomes a connected person of the Company for whatever reason, the Company will immediately upon it becoming aware of this fact, comply with, among others, Rule 14A.70(2) of the Listing Rules upon exercise of the Put Option, and Rule 14A.70(3) of the Listing Rules upon non-exercise of the Put Option, and other connected transaction requirements of the Listing Rules.

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;

(v) a discount of about 61.9% to the closing price of HK$0.164 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) 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; and

(vii) a premium of approximately 298.1% over the unaudited net assets value per Share attributable to equity shareholders of the Company as at 30 June 2009 of approximately HK$0.0157 per Share.

The conversion price was determined after arm's length negotiations between the Company and the Vendor with reference to net asset value per Share of the Company as at 31 December 2008 and the Consideration on the basis of full conversion of the Convertible Notes. Given that the initial conversion price represents a premium of approximately 285.8% over the audited net asset 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, and that the massive dilution effect on the shareholding interest of the Shareholders is acceptable.

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 p.m. (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 unless the then aggregate outstanding principal amount of the Convertible Notes is less than HK$500,000, in which case the whole (but not part only) of the outstanding principal amount of the Convertible Notes shall be converted) into Conversion Shares at the then applicable conversion price. 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. In this respect, the issue of the Convertible Notes and the exercise of the Conversion Rights will not result in a change in control (as defined in the Takeovers Code) of the Company. 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 for the issue of the Conversion Shares which 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) as at the Latest Practicable Date; (ii) 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; and (iii) 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 Latest Practicable Date other than as stated in each scenario.

	As at the Latest Practicable Date		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	5.00
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:

1. 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.

2. 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 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. In this respect, the issue of the Convertible Notes and the exercise of the Conversion Rights will not result in a change in control (as defined in the Takeovers Code) of the Company.

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. Hengtai has currently passed the joint check and acceptance procedures conducted by the relevant government authorities for the Coal Mine No. 1 and is now applying for a coal production permit (the "Coal Production Permit"). After that, Hengtai will apply for the expansion of its business scope to cover coal mining and sale of coal products.

Shanxi Hengchuang is a wholly foreign owned company duly incorporated on 31 March 2008 in the PRC, whose sole shareholder is the Target Company, which is an investment holding company. There has been no change in its management and corporate structure since the date of its incorporation. Except for acquiring and holding 99% equity interest in Shanxi Puhua, Shanxi Hengchuang has not commenced any business operations since its establishment.

Shanxi Puhua is a PRC domestic company with limited liability duly incorporated on 19 June 2003. Upon its establishment, there were two individual shareholders holding 60% equity interest and 40% equity interest respectively. Before the PRC Acquisition, there have been several changes related to the management control of Shanxi Puhua, and except for completing registrations and/or filings with Shanxi Administration of Industry and Commerce ("Shanxi AIC"), such changes do not require any government approvals and the said registrations and/or filings have been properly done. The PRC Acquisition was duly completed and registered with Shanxi AIC on 29 September 2009, after which there are currently two shareholders of Shanxi Puhua, namely Shanxi Hengchuang holding 99% equity interest and a PRC citizen holding 1% equity interest. Except for acquiring and holding 95% equity interest in Hengtai, Shanxi Puhua has not commenced any business operations since its establishment.

Hengtai is a PRC domestic company with limited liability duly incorporated on 3 June 2005. Upon its establishment, there were two shareholders of Hengtai holding 10% equity interest and 90% equity interest respectively. Later on 2 June 2006, one of the aforesaid two original shareholders of Hengtai who held 10% equity interest has made further capital contribution to increase the registered capital of Hengtai, after which the shareholding percentage in Hengtai held by the said original shareholder has been increased from 10% to 70% and accordingly, the shareholding percentage in Hengtai held by the other original shareholder has been decreased from 90% to 30%. Except for (i) the aforesaid change of shareholding percentages respectively held by the original two shareholders of Hengtai; and (ii) the acquisition of Hengtai, in which (i) Shanxi Puhua has purchased 70% equity interest in Hengtai from one shareholder and 25% equity interest in Hengtai from the other shareholder; and (ii) 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) has purchased 5% equity interest in Hengtai, there has been no other changes in respect of shareholding, management and corporate structure of Hengtai since the date of its incorporation.

For more detailed information regarding the companies of the Target Group, please refer to the following section.

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 PRC. As at the Latest Practicable Date, the registered capital of Shanxi Hengchuang amounted to US$75,000,000, of which US$20,000,000 has been paid up.

The business scope of Shanxi Hengchuang is the development and promotion of coal related environmentally friendly energy technology, purchase and sale of coal products, mineral products, chemical products, construction materials, selection and washing of refined coals (excluding restricted commodities under government control). Other than acquiring and holding 99% equity interest in Shanxi Puhua, Shanxi Hengchuang has not commenced any business since its incorporation. Please refer to the paragraph headed "The PRC Acquisition" below for the details of the acquisition of the 99% equity interest in Shanxi Puhua by Shanxi Hengchuang.

According to the management accounts of Shanxi Hengchuang prepared in accordance with PRC accounting standards, 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 PRC on 19 June 2003. As at the Latest Practicable Date, the registered capital of Shanxi Puhua amounted to RMB150 million and has been fully paid up. Following completion of the PRC Acquisition on 29 September 2009, Shanxi Puhua is 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. Other than acquiring and holding 95% equity interest in Hengtai, Shanxi Puhua has not commenced any business since its incorporation.

The consideration for the acquisition of the 95% equity interest in Hengtai by Shanxi Puhua was RMB665 million. As advised by the Vendor, such consideration was based on normal commercial terms and determined after arm's length negotiation between Shanxi Puhua and the vendors with reference to the then market condition and the prospects of the Coal Mines.

According to the management accounts of Shanxi Puhua prepared in accordance with 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 to facilitate the acquisition of Hengtai in year 2008, it recorded a net loss of approximately of RMB3.2 million notwithstanding that it has not commenced any business since its incorporation and did not record any revenue in year 2007.

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

According to the management accounts of Shanxi Puhua prepared in accordance with 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 PRC accounting standards, the total assets and net assets of Shanxi Puhua as at 31 December 2008 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 PRC on 3 June 2005. As at the Latest Practicable Date, the registered capital of Hengtai amounted to RMB180 million and has been fully paid up. 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.

As at the Latest Practicable Date, Hengtai is the registered and beneficial owner of the mining licences over the Coal Mines (subject to mortgage of mining rights in favour of the Bank). The current business scope of Hengtai is the sale of mechanical equipment and accessories in relation to coal. In order to conduct coal operations commercially, Hengtai needs to expand its business scope to cover coal mining and coal selling. For doing so, Hengtai still needs to obtain the Coal Production Permit before making relevant applications with the Inner Mongolian Administration of Industry and Commerce to obtain a new business license (the "New Business License") with the business scope of coal mining and coal selling.

Hengtai has obtained all the following approval/licenses that are necessary for the Coal Mine No.1 to test its operation:

(i) Approval on the Feasibility Study Report of the Coal Mine No.1 issued by the Coal Industry Bureau of Inner Mongolia;

(ii) Approval on Preliminary Design of Coal Mine No. 1 issued by Coal Industry Bureau of Inner Mongolia;

(iii) Approval on Environmental Influences Report of Construction of Coal Mine No.1 issued by Environmental Protection Bureau of Inner Mongolia;

(iv) Approval on Soil and Water Conservation Report in relation to Coal Mine No.1 issued by Water Resources Department of Erduosi Municipality;

(v) Approval on Safety Matters concerning Preliminary Design of Coal Mine No.1 issued by Coal Mine Safety Supervision Bureau of Inner Mongolia; and

(vi) Approval on the Testing Operation of Coal Mine No.1 issued by the Coal Industry Bureau of Inner Mongolia.

Except for the Coal Production Permit and the New Business License, Hengtai has obtained all the following approval/licenses that are necessary for the Coal Mine No.1 to operate legally:

(i) Mining Rights License of Coal Mine No.1;

(ii) Coal Production Safety Permit;

(iii) Qualification Certificate of Chief Officer of Coal Mines; and

(iv) Safety Related Qualification Certificate of Chief Officer of Coal Mines.

Currently, Hengtai has already passed the joint inspection and acceptance procedures and has submitted all the required documents and materials to the Coal Industry Bureau of Inner Mongolia for obtaining the Coal Production Permit and the application has already been accepted by the Coal Industry Bureau of Inner Mongolia. It is expected that Hengtai will be able to obtain the Coal Production Permit in late November 2009. After obtaining the Coal Production Permit, Hengtai will take action to obtain the New Business License, which is expected to be obtained around the first two weeks of December 2009. So far, Hengtai has not identified or envisaged that there are any legal obstacles for obtaining the Coal Production Permit and the New Business License.

As mentioned above, except that Hengtai has not yet obtained the Coal Production Permit and the New Business License, the current operations of Hengtai have complied with other aspects of the applicable laws and regulations in PRC. So far, Hengtai has not been subject to any governmental punishment/penalties arising from its current lack of the Coal Production Permit and the New Business License.

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

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

Reasons for the differences in the financial information of the Target Group under PRC accounting standard and Hong Kong Financial Reporting Standard ("HKFRS")

For the year ended 31 December 2007, the financial information under PRC accounting standard is different from the financial information under HKFRS because:

(1) impairment provision has been made for trade and other receivables under HKFRS, while such impairment provision has not been made in PRC accounting standard management accounts;

(2) pre-operating expenses have been written off to income statement under HKFRS, while such expenses have been capitalised in PRC accounting standard management accounts;

(3) land use taxes have been accrued under HKFRS, while such taxes have not been accrued in PRC accounting standard management accounts; and

(4) deferred tax assets have been recognised on tax losses and amortisation of mining rights under HKFRS, while such deferred tax assets have not been recognised in PRC accounting standard management accounts.

For the year ended 31 December 2008, the financial information under PRC accounting standard is different from HKFRS financial information because of the same reasons as above and the below additional reasons:

(1) net proceeds on sales of coal output during the construction of the coal mine is capitalised as a credit to construction in progress under HKFRS, while such net proceeds have been recognised in the income statement under PRC accounting standard management accounts; and

(2) deferred tax assets have been recognised on employee costs payables, while such deferred tax assets have not been recognised in PRC accounting standard management accounts.

The financial statements of the Target Group have been prepared in accordance with HKFRSs. Shareholders should read the whole of the accountants' report of the Target Group set out in Appendix II to this circular.

THE PRC ACQUISITION

Under the Sale and Purchase Agreement, the PRC Acquisition shall take place within one month from the date of the Sale and Purchase Agreement so that Shanxi Hengchuang would own 99% of the equity interest of Shanxi Puhua prior to Completion. The consideration for the PRC Acquisition is RMB148.5 million, which was determined based on the registered capital of Shanxi Puhua of RMB150 million. The agreement relating to the purchase of equity interest of Shanxi Puhua was originally signed by Shanxi Hengchuang on 30 May 2008 which was subsequently superseded by two agreements ("New Agreements") both signed by Shanxi Hengchuang as transferee with 2 vendors respectively on 23 September 2009. The original agreement relating to the purchase of equity interest in Shanxi Puhua was signed among Shanxi Hengchuang and the 2 vendors on 30 May 2008 (the "Original Agreement"), which has been approved by Department of Commerce of Shanxi. However, after obtaining the said approval, the relevant signing parties have not handled the relevant change of business registration formalities with Shanxi Administration of Industry and Commerce ("Shanxi AIC") within the prescribed time and the said approval subsequently expired. Thus, the transfer of equity interest in Shanxi Puhua under the Original Agreement has not been completed and registered. Due to the subsequent change in registered capital and business scope of Shanxi Puhua, the aforesaid relevant parties entered into the New Agreements on 23 September 2009 for the purchase of equity interest in Shanxi Puhua which superseded the Original Agreement dated 30 May 2008. The PRC Legal Advisers have advised that, under the relevant PRC laws, the New Agreements do not require the approval by Department of Commerce of Shanxi and the relevant signing parties have duly completed the equity transfer and relevant change of business registration formalities with Shanxi AIC, and the PRC Acquisition was duly completed and registered on 29 September 2009.

The major changes in the terms between the Original Agreement and the New Agreements are as follows: (i) under the Original Agreement, the consideration for the purchase of equity interest in Shanxi Puhua was RMB26.133 million, and Shanxi Hengchuang would repay debt of RMB113.867 million for Shanxi Puhua. Under the New Agreements, the purchase price is RMB148.5 million, which is to be in line with the increased registered capital of Shanxi Puhua; and (ii) the representations and warranties given by the 2 vendors have been simplified under the New Agreements.

Under the terms of the Sale and Purchase Agreement, completion of the PRC Acquisition is not a condition precedent but it is an undertaking by the Vendor that completion of the PRC Acquisition shall take place within one month of the signing of the Sale and Purchase Agreement.

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.

The Vendor 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, the Vendor 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 shareholders of the Company).

The Directors are aware of the considerable premium when comparing the Consideration with the original cost paid 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 technical report prepared by BOYD (full report of which is set out in Appendix VI to this circular).

Coal Mine Nos. 1 and 2 cover an area of about 3.56 sq. km. and 3.39 sq. km, respectively. The construction and the testing stage of production of Coal Mine No. 1 have been completed. It is expected that the business license with scope including coal production and sale will be obtained by Hengtai in early December 2009. Construction of Coal Mine No.2 is in process as at the Latest Practicable Date. 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 both 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 Coal Mine No.1 and Coal Mine No.2 specifies an annual output capacity of 1.2 Mtpa but the Coal Industry Bureau of Inner Mongolia has granted a preliminary approval for the expansion of the annual output capacity of Coal Mine No.1 to 2.4 Mtpa with the condition that the mine successfully completes all the procedures required by the government.

The following procedures and licenses are required for Hengtai to expand the annual output capacity of Coal Mine No. 1:

(i) Hengtai shall apply for and obtain a preliminary approval for expanding the annual output capacity of Coal Mine No.1 to be issued by Coal Industry Bureau of Inner Mongolia, and Hengtai has already obtained such a preliminary approval on 19 December 2007 for expanding annual output capacity of Coal Mine No.1 from 1.2 Mtpa to 2.4 Mtpa;

(ii) Hengtai shall apply for and obtain an approval on the feasibility study report of the Coal Mine No.1 for expanding its annual output capacity to be issued by the Coal Industry Bureau of Inner Mongolia;

(iii) Hengtai shall apply for and obtain an approval on preliminary design of Coal Mine No. 1 for expanding its annual output capacity to be issued by Coal Industry Bureau of Inner Mongolia;

(iv) Hengtai shall apply for and obtain an approval on safety matters concerning preliminary design of Coal Mine No.1 for expanding its annual output capacity to be issued by Coal Mine Safety Supervision Bureau of Inner Mongolia;

(v) Hengtai shall apply for and obtain an approval on environmental influences report of construction of Coal Mine No.1 for expanding its annual output capacity to be issued by Environmental Protection Bureau of Inner Mongolia;

(vi) Hengtai shall apply for and obtain an approval on soil and water conservation report in relation to Coal Mine No.1 for expanding its annual output capacity to be issued by Water Resources Department of Erduosi Municipality;

After obtaining all the approvals listed above for its expansion of annual output capacity of Coal Mine No.1, Hengtai shall also need to complete the joint inspection and acceptance procedures for the said expansion of annual output capacity of Coal Mine No.1. After that, Hengtai shall also apply for updating the Mining Right License No. 1, the Coal Production Permit and the Coal Production Safety Permit to reflect the expansion of annual output capacity of Coal Mine No.1.

As at the Latest Practicable Date, the Target Group has no timetable regarding the expected date on which all the relevant approvals for the expansion of annual output capacity of Coal Mine No. 1 will be obtained.

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

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

Coal reserves of the Coal Mines as estimated as follows:

Mine No.	**In Situ Measured Resources**	**Proved Recoverable Reserves**	**Proved Marketable Reserves**
	(Mt)	*(Mt)*	*(Mt)*
1	48.36	30.06	28.84
2	59.20	41.80	39.58
Total	107.56	71.86	68.42

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 technical report set out in Appendix VI to this circular, 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 Latest Practicable Date, 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, subject to the expansion of the business scope of Hengtai's business licence. 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 PRC and may possibly enhance 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. Dr. Wang Da Yong, the executive director and chief executive officer of the Company, has obtained detail knowledge of coal, coal chemical, metal mineral resources industries and maintains strong networks in business field and with central and local government agencies in China. He worked in the Ministry of Agriculture, PRC previously. He was an executive director and CEO of China Best Group Holding Limited (Stock Code: 370), a listed company in the Stock Exchange from 16 September 2004 to 5 June 2007. He was also the CEO of Fortune Dragon Group Limited, a company with major coking coal mine operation in Shanxi, PRC having the production of 6.3 Mtpa, which was acquired by Fushan International Energy Group Limited (Stock Code: 639) in July 2008 for a consideration of over HK$10 billion. During the period, he was in charge of the general management, especially in investment, marketing and financing of coal, coke and coal related business.

Other than Dr. Wang Da Yong, the Company has no other management which has expertise or experience in managing coal mine. The Directors plan to run the new business in coal mining and selling with the existing operating model and strategies of the Target Group and intend to engage the Target Group's expertise in running the mining business. The Target Group's business model is similar to the industry practice in the local area, which is basically mining and selling of raw coal to customers located mainly in Inner Mongolia, Shanxi, and Hebei. The main product of the Target Group is thermal coal, which is commonly used by power plants to generate power. As the Target Group has just completed the trial stage of production, currently it does not have a strong presence in the market and it only has a negligible market share in the PRC coal mine industry. As at the Latest Practicable Date, it has not entered into long-term contracts with any of its customers and has only entered into annual contracts with a few customers. When commercial operation commences, the Target Group will gradually seek for longer term and steady business relationships with selected customers based on their credits and amounts of orders they make. In longer term, the Target Group intends to expand its customer base and it does not anticipate that it will rely heavily on just a few customers for its future business. To facilitate the business development of the Group following the Acquisition, 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 Purchaser is acquiring the interests in the Coal Mines through the acquisition of the Sale Shares, i.e., the entire issued share capital of the Target Company. As advised by the PRC Legal Advisers, as Shanxi Hengchuang had already entered into the Original Agreement with the original shareholders of Shanxi Puhua on 30 May 2008 (although the Original Agreement had been superseded by the New Agreements entered into between Shanxi Hengchuang and the original shareholders of Shanxi Puhua on 23 September 2009), and Shanxi Puhua had also entered into binding arrangements with the original shareholders of Hengtai and provided funds to Hengtai to finance its construction of Coal Mine No.1, it is legally and practically difficult for the Purchaser to purchase the equity interests in Shanxi Puhua or Hengtai directly.

The terms of the Sale and Purchase Agreement have been determined after arm's length negotiation between the Vendor and the Purchaser and are on normal commercial terms. Having considered the following principal factors and reasons:- (i) the positive outlook for the PRC coal industry as set out in the paragraph headed "PRC Coal Mine Industry Overview" below; (ii) the reasons for the Acquisition as stated above, in particular that the Acquisition may possibly enhance the profitability of the Group in the future; (iii) the Consideration which was arrived at based on 90% of the valuation of the Coal Mines; and (iv) the conversion price of the Convertible Notes which represents a premium of approximately 285.8% over the audited net asset value per Share attributable to equity shareholders of the Company as at 31 December 2008 of approximately HK$0.0162 per Share, 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 (including the substantial discount of the conversion price to market prices of the Shares), are on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the massive dilution effect on the shareholding interest of the Shareholders is acceptable.

PRC COAL MINE INDUSTRY OVERVIEW

Coal mining business is one of the key driving forces of the economic development of PRC. Owing to limited alternative energy resources available in PRC, the country has to rely on coal as a major energy input at this moment. In 2007, the coal usage accounted for approximately 76% of energy output and approximately 69% of consumption. In recent years, the coal output in PRC has increased significantly. The country is now the largest producer and consumer of coal in the world.

The estimated total coal resources in PRC are about 1 trillion tonnes. Yet they are not evenly distributed and mainly concentrated in Inner Mongolia, Shanxi, Anhui, Shandong, Guizhou, Heilongjiang, Hebei, Henan, XingJiang, Shannxi, Nigxia and Yunnan Provinces. Obviously, these provinces are located at the northern and the western parts of the country. Among the identified coal resources, Shanxi and Inner Mongolia both have the largest coal reserves, which accounted for approximately 26.0% and 21.9% of the country's reserves respectively. The reserve level of accessible coal is also the largest in these 2 provinces, equivalent to approximately 30.9% and 24.4% of the national reserves respectively.

Based on Statistical Review of World Energy 2008, PRC produced nearly two-fifth of total coal production in the world. The annual coal output in PRC for year 2008 reached approximately 2.62 billion tonnes, representing a growth of approximately 3.6% from the 2007 annual output of approximately 2.53 billion tonnes. The PRC's coal production was up 5% in the first quarter of year 2009 due to the stronger output from Inner Mongolia that is up by yearly growth of approximately 22%. The output from Inner Mongolia is far more than the sum of southern coal consuming provinces. The overall coal output in PRC was stably increasing at a quarterly average growth rate of approximately 3.4% over the period. It seems that the fluctuation of coal price in 2008 does not affect the general coal production to a large extent.

In terms of demand, owing to the rapid and steady economic growth, demand for coal was strong and the coal price continued to increase in the first eight months of year 2008. After September, due to the financial tsunami, growth in demand for coal slowed, the coal inventory stocks increased rapidly and the coal price declined significantly. In 2008, coal consumption in PRC amounted to approximately 2.74 billion tonnes, representing a growth of approximately 3.0% as compared with 2007. In terms of supply, the domestic supply of coal grew fast in the first eight months. After September, however, the demand and supply of coal reversed. As some coal enterprises took measures to limit production in order to stabilize the coal price, growth in coal supply slowed. In 2008, the annual coal output was approximately 2.62 billion tonnes, representing an increase of approximately 3.6% as compared with 2007. More efforts were made on the close of small coal mines. During the year, 1,054 small coal mines with an aggregate capacity of approximately 50 million tonnes were shut down. Since the commencement of closures work in 2005, a total of 12,155 small coal mines have been shut down with a capacity reduction of about 300 million tonnes.

According to the Implementation Measures on the Integration and Use of Coal Resources (“關於進一步推進煤炭資源整合和有償使用的實施辦法”) issued by the government of the Inner Mongolian Autonomous Zone on 20 August 2005, all the small coal mines with the annual output capacity of less than 100,000 tons were to be closed down by the end of 2007, and the annual output capacity of the newly constructed coal mines have to reach 1,200,000 tons. Since the annual output capacity of Coal Mine No.1 is 1,200,000 tons, the aforesaid local regulations will not have any adverse impact on the operation of Coal Mine No.1.

The PRC coal mine industry has remained competitive, but the main entry barriers, such as the injection of a huge amount of capital into the development of mines which includes, but not limited to, the construction of mines, obtaining the necessary licenses, and operating the mines, have limited the number of new entrants, especially during the adverse economic situation in 2008. The licenses required for operating the Coal Mines legally in the PRC are listed below:

(i) Business license of a coal production company whose business scope covers coal mining and coal selling;

(ii) Mining Rights License of the Coal Mines;

(iii) Coal Production Permit of the Coal Mines;

(iv) Coal Production Safety Permit of the Coal Mines;

(v) Qualification Certificate of Chief Officer of the Coal Mines;

(vi) Safety Related Qualification Certificate of Chief Officer of the Coal Mines; and

(vii) Coal Operation Qualification Certificate *(Note: an enterprise shall obtain a coal operation qualification certificate for engaging in sales of coal products that are not self-produced and self-processed. Hengtai currently has not engaged in sales of coal products that are not self-produced and self-processed, therefore, Hengtai is not required to obtain the aforesaid coal operation qualification certificate.)*

To sum up, the coal market looks promising and enticing in the future regardless of global financial crisis. Since the energy consumption supported the rapid economic growth, the domestic coal demand has been generally stable. In contrast, there would be a short of supply in certain regions during certain periods. As a command economy, political factor plays a major role in PRC. The government aims to restructure the coal mining industry in order to make it more competitive and effective. The coal supply structure is changing as small mines are gradually replaced by key state-owned big mines. On 7 May 2008, the State Administration of Work Safety strongly urged local governments to formulate plans by closure of many small coal mines for safety and efficiency reasons. The government is determined to promote integration and consolidation of fragmented coal industry.

As the global economy is on the road of recovery, a bright future is believed to be ahead of the PRC's coal industry. It is expected in the near future the coal price will maintain at a relatively stable level given a sign of strengthening coal market dynamics. The tax reform on coal resources and production volume constraints will be a supporting factor for coal prices. Furthermore, a stable increment in demand from major coal-consuming industries will add more support for coal price. This environment will be favorable towards stabilizing the coal price in a foreseeable period. Given the sound fundamental of the industry in the long run, the supply as well as demand of the market is expected to further increase at a rapid pace. Therefore, the coal mining business in the world's third largest economy is expected to maintain a sustainable growth.

RISK FACTORS

Investments in new business

The Acquisition constitutes an investment in the new business sector, i.e., coal mining and selling. The new business, coupled with the regulatory environment, may pose significant challenges to the Group's administrative, financial and operational resources. Since the Group does not have significant experience in the new business, it is not in a position to assure the timing and amount of any return or benefits that may be received from the new business. If any coal mining projects in which the Group attempts to develop does not progress as planned, the Group may not recover the funds and resources it has spent, and this may adversely affect the Group.

Cyclical nature of coal markets and fluctuations in their prices

As the revenue of the new business is derived from coal mining and selling, the Group's future business and results of operations is dependent on the domestic market supply of and demand for coal. The fluctuations in such supply and demand are caused by numerous factors beyond the Group's control, which include, but not limited to:

(i) global and domestic economic and political conditions and competition from other energy sources; and

(ii) the rate of growth and expansion in industries with high coal demand, such as steel and power.

There is no assurance that the demand for coal and related products will continue to grow, or that the demand for coal and related products will not experience excess supply.

Significant and continuous capital investment

The coal mining business requires significant and continuous capital investment. The projects may not be completed as planned or scheduled, may exceed the original budgets and may not achieve the intended economic results or commercial viability. Actual capital expenditures for the new business may significantly exceed the Group's budgets because of factors beyond the Group's control, which in turn may affect the Group's financial conditions.

Policies and regulations

Risks relating to policies and regulations in related to the coal industry

The PRC coal industry is subject to extensive regulations by the PRC government. These regulations govern areas, including, but not limited to, investments, exploration, production, mining rights, distribution, trading, transportation and exports related to coal, and investments, generation, pricing, dispatch and tariffs related to power. In addition, coal operations are subject to fees and taxes, as well as safety and environmental protection laws and regulations. The Target Group is required or obliged to pay relevant fees and taxes in relation to its coal mining and selling. As advised by the Vendor, as at the Latest Practicable Date, such relevant liabilities have been fully settled. In the event that additional fees and taxes become payable, additional capital may be required to bring Hengtai into production and the results of operation may be adversely affected.

There can be no assurance that the relevant government will not change such laws, regulations, policies, controls, standards or requirements or impose additional or more stringent laws, regulations, policies, controls, standards or requirements or the Enlarged Group will be able to comply with any such new laws, regulations, policies, controls, standards or requirements applicable to the coal mines economically or at all. Further any such new laws, regulations, policies, controls, standards or requirements or any such change in existing laws, regulations policies, controls, standards or requirements may also constrain the Group's future expansion plans, if any, and adversely affect the Group's profitability.

Risks relating to the Coal Law and related laws and regulations

In August 1996, the Standing Committee of the National People's Congress promulgated the Coal Law of the PRC (中華人民共和國煤炭法) (the "Coal Law"), which became effective on 1 December 1996. The Coal Law sets forth requirements in many areas of coal production, including, among others, exploration, the approval of new mines, the issuance of production permits, the implementation of safety standards, the trading of coal and the protection of mining areas from destructive exploitation, the protection of miners and administrative supervision.

All mineral resources in China are owned by the state under the current Mineral Resources Law of the PRC (中華人民共和國礦產資源法) (the "Mineral Resources Law"), which was promulgated on 19 March 1986 and amended on 29 August 1996. The Ministry of Land and Resources of the PRC ("MLR") is responsible for the supervision and administration of the mining and exploration of mineral resources nationwide. The geology and mineral resources bureaus of each province, autonomous region and municipal government are responsible for the supervision and administration of the exploration, development and exploitation of mineral resources within their own jurisdictions. Enterprises engaged in the exploration and exploitation of mineral resources must obtain exploration rights and mining rights, as the case may be, which are transferable.

According to the Coal Law and the Mineral Resources Law, exploration and exploitation of coal is subject to supervision by the MLR and the relevant local mineral resource bureaus and coal administration departments. Upon approval, an exploration license for each proposed mine or a mining rights license for the Coal Mines will be granted by the MLR or the relevant local mineral resource bureau responsible for supervising and inspecting exploration and exploitation of mineral resources in the jurisdiction. Annual reports are required to be filed by the holders of Mining Rights Licenses with the relevant administrative authorities that issue the permits. A coal producer must also obtain a Coal Production Permit for each of the Coal Mines in order to begin producing and selling coal in PRC.

Under the Coal Law and the Mineral Resources Law, coal producers are required to achieve certain reserve recovery rates. Failure to achieve the applicable recovery rate may result in penalties, including the revocation of the production permits of coal producers.

Risks relating to pricing

The pricing of coal products is now determined primarily by market's supply and demand. However, according to the Inner Mongolia Administrative Measures on the Collection and Use of Coal Products related Price Adjustment Charges (內蒙古自治區煤炭價格調節基金徵收使用管理辦法) issued by the Inner Mongolia Development and Reform Commission, under which certain amount of coal products related price adjustment charges will be levied on the coal operation enterprises within Inner Mongolia for each ton of various kinds of coal products. The rate of the said price adjustment charges may be adjustable in accordance with the changes of the coal market. Therefore, sale price of its coal products of Hengtai is subject to and may be affected by the aforesaid changes of price adjustment charges.

Risks relating to the safety policies

The State Administration of Work Safety (the "SAWS") and the State Administration of Coal Mine Safety (the "SACMS") under the supervision of the SAWS are the PRC government authorities exercising control over and supervision of the safety of coal production. In order to proceed with the construction of a coal mine project, the project's safety designs and procedures must be examined and approved by the SACMS or its local offices. Upon the completion of a coal mine construction project and before the commencement of production, further inspection and approval by the SACMS or its local offices of the facilities and conditions is required. The SACMS also conducts regular safety inspections of coal producers pursuant to the Safety Production Law, the Mining Safety Law of the PRC and applicable safety regulations. In addition, mining companies are required to truthfully report to the head office of labor administration and management of coal companies, within 24 hours, any safety accident that causes serious personal injuries or fatalities.

Under the Implementation Measures for Coal Production Safety Permits, effective from 17 May 2004, each operating coal mine is required to apply for a coal production safety permit from the SACMS or its provincial bureau. To further strengthen the safety regulation of coal mines, the SAWS and the SACMS issued the amended coal mine safety procedures effective from 1 January 2005. The amended coal mine safety procedures set forth higher production safety requirements and stricter safety standards for coal producers in PRC.

Coal producers who fail to comply with safety regulations will be subject to penalties, including fines and suspension of the safety operation license.

Risks relating to environmental protection

The PRC Environmental Protection Law (環境保護法) (the "Environmental Protection Law") requires all operations that produce pollutants or other hazards to take environmental protection measures, and to establish an environmental protection responsibility system. Such system includes the adoption of effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. Any entity that discharges waste material must report to and register with the relevant environmental protection authority.

If an enterprise fails to report or register the environmental pollution caused by it, it will receive a warning or be penalized. Enterprises which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licenses terminated. Enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as compensate any losses or damages suffered as a result of such environmental pollution. A material violation of the Environmental Protection Law that causes a material loss of public and private belongings or personal injuries or death may result in criminal liability.

As advised by the PRC Legal Advisers, except for the relevant policies and regulations that have already been disclosed in the paragraph headed "Policies and regulations", they are not aware of any other latest local policy adopted in the area where the Target Group operates which may have adverse impact on the operation of the Coal Mines.

Country risk

The Group is entering a new business in Inner Mongolia, which the Group does not have any business in. There are risks relating to the possible changes in the business environment which may reduce the profitability of doing business in Inner Mongolia. The change of political and economic conditions in Inner Mongolia may adversely affect the new business of the Group.

FINANCIAL AND TRADING PROSPECTS

The Group

During the six months ended 30 June 2009, the turnover from continuing operations of the Group decreased to approximately HK$40.0 million as compared with approximately HK$321.4 million for the same period of last year. Overall gross profit decreased from approximately HK$35.7 million in the same period of last year to approximately HK$875,000. Such decreases were mainly due to decline of phosphorus business during the period as the demand of phosphorus products was weak during the period. Loss from continuing operations was approximately HK$771,000 during the period compared with a net profit from continuing operations of approximately HK$19.5 million for the same period of last year.

Following the downward trend in the second half of 2008, the demand of phosphorus products continued to be weak in early 2009. The market had encountered a short term rebound after the Chinese New Year and the Group captured a bulk order of over 2,000 tons. Then the market turned to stagnant again. Facing such unfavourable market and economic situation, the Group will continue to be very cautious and to monitor the market closely so as to take any possible business opportunities during such difficult times.

Regarding the trading of optical products, due to the global economic slowdown, the demand of optical products also decreased. As the retail market shows signs of picking up again, the Group believes the trading of optical products will become profitable in the second half of year 2009.

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 III to this circular, as there was no commercialized production of the Coal Mines in 2008, the Target Group did not record any revenue in 2008 and the unaudited pro forma revenue of the Enlarged Group would remain the same after the Acquisition.

Looking forward in 2009, after Completion, the Enlarged Group will continue with the existing principal business of the Group and the coal mine business of the Target Group.

The Directors consider that the Acquisition will enhance the income and assets base of the Group, create new business opportunities for the Group and will broaden its revenue base. The Directors believe that the Group may broaden its source of income by diversifying its investment into coal mining business. The purpose of the coal mining business is to explore the opportunities and derive income from the sale of coal to be extracted.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a subsidiary of the Company and the financial results of the Target Group will be consolidated with the Group.

Set out in Appendix III to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the financial effect of the Acquisition on the results and cash flows of the Group assuming the completion of the Acquisition had taken place on 1 January 2008; and on the assets and liabilities of the Group assuming the completion of the Acquisition had taken place on 1 January 2008.

Based on the unaudited pro forma consolidated income statement and balance sheet of the Enlarged Group as set out in Appendix III to this circular,

(i) the turnover of the Group would remain the same after the Acquisition as there was no commercialized production of the Coal Mines in 2008;

(ii) the net profit attributable to the equity holders of the Company from continuing operations for the year ended 31 December 2008 would be approximately HK$409.3 million assuming the Acquisition has been completed on 1 January 2008. The profit of the pro forma Enlarged Group for the year ended 31 December 2008 mainly arose from the net effect of profit arising from discount on acquisition of Hengtai by Shanxi Puhua of HK$1.65 billion, the impairment loss on mining rights of HK$1.58 billion and the related deferred tax credit of HK$0.4 billion on impairment loss of mining rights. The acquisition of Hengtai by Shanxi Puhua during the year ended 31 December 2008 is a one-off transaction which is not expected to recur in future. The impairment loss on mining rights arose from significant decrease in coal prices as a result of global economic crisis commencing from September 2008, and its resultant tax impact is recognised as a deferred tax credit in the pro forma income statement for the year ended 31 December 2008;

(iii) the total assets of the Group would increase from approximately HK$191.1 million to approximately HK$4,228.2 million assuming the Acquisition had been completed on 31 December 2008; and

(iv) the total liabilities of the Group would increase from approximately HK$139.1 million to HK$4,102.4 million assuming the Acquisition has been completed on 31 December 2008. Pursuant to the Sale and Purchase Agreement, however, if the total liabilities of the Target Group 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. Please refer to the paragraph headed "Adjustment to Consideration" above for details. As at 31 December 2008, the total liabilities (under the basis that the PRC Acquisition had been completed on 31 December 2008 and the consideration payable for the PRC Acquisition had been accrued at 31 December 2008) of the Target Group was approximately RMB1,865.8 million. The Purchaser and the Vendor have agreed that the item "deferred tax liabilities", which amounted to approximately RMB339.1 million as at 31 December 2008, will not be included in the total liabilities of the Target Group for the above adjustment purpose.

LISTING RULES REQUIREMENTS

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 Latest Practicable Date 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 (including exercise of the right to terminate the Put Option) at the EGM.

EGM

The EGM, the notice of which is set out on pages EGM-1 and EGM-2 of this circular, will be held to consider and, if thought fit, approve the ordinary resolution to approve the Acquisition and the transactions contemplated thereunder including exercise of the right to terminate the Put Option.

There is a form of proxy for use at the EGM accompanying this circular. Whether or not you will be able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed 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 in person at the EGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Board considers that terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution approving the Acquisition and the transactions contemplated thereunder as set out in the notice of EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the financial information of the Group and the Target Group, the valuation report, the technical report and the other information set out in the appendices to this circular.

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

Hong Kong, 18 November 2009

1. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2008 AND SIX MONTHS ENDED 30 JUNE 2009

The following financial information has been extracted from the audited financial statements of the Group for each of the three years ended 31 December 2008 and the unaudited financial statements of the Group for the six months ended 30 June 2009.

	Six months ended 30 June	Year ended 31 December		
	2009	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited)
RESULTS				
Turnover	40,064	627,056	373,047	235,201
Profit/(loss) for the year	(771)	(78,031)	(116,987)	(14,510)
	HK cents	*HK cents*	*HK cents*	*HK cents*
Basic earnings/(loss) per share	(0.02)	(2.50)	3.71	(0.2)

	As at 30 June	As at 31 December		
	2009	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited)
ASSETS AND LIABILITIES				
Total assets	123,966	191,063	260,198	596
Total liabilities	(73,608)	(139,008)	(137,576)	(9,373)
	50,358	52,055	122,622	(8,777)
Share capital	32,097	31,249	31,249	31,249
Reserves	18,261	20,806	91,373	(40,026)
Total equity	50,358	52,055	122,622	(8,777)

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

The audited financial statements together with the relevant notes to the financial statements of the Group as extracted from the annual report of the Company for the year ended 31 December 2008 ("2008 Annual Report") are out below. The page reference in this report is the same as those in the 2008 Annual Report.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000 (restated)
Continuing operations			
Turnover	5	627,056	373,047
Cost of sales		(598,245)	(264,084)
Gross profit		28,811	108,963
Other income	6	1,409	1,888
Selling and distribution costs		(17,835)	(11,968)
Administrative expenses		(19,493)	(14,233)
Write-down of inventories		(13,349)	–
(Loss)/profit from operations		(20,457)	84,650
Finance costs	7	–	–
(Loss)/profit before income tax	8	(20,457)	84,650
Income tax	11	–	–
(Loss)/profit for the year from continuing operations		(20,457)	84,650
Discontinued operations			
(Loss)/profit for the year from discontinued operations	16	(57,574)	32,337
(Loss)/profit for the year		(78,031)	116,987
Attributable to:			
Equity holders of the Company	12		
– Continuing operations		(20,457)	84,650
– Discontinued operations		(57,574)	31,372
		(78,031)	116,022
Minority interests			
– Continuing operations		–	–
– Discontinued operations		–	965
		–	965
(Loss)/profit for the year		(78,031)	116,987
(Loss)/earnings per share (HK cents)	14		
Basic			
Continuing operations		(0.66)	2.71
Discontinued operations		(1.84)	1.00
Continuing and discontinued operations		(2.50)	3.71
Diluted			
Continuing operations		N/A	2.71
Discontinued operations		N/A	1.00
Continuing and discontinued operations		N/A	3.71

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	2,441	258
Construction in progress	18	–	464
		2,441	722
Current assets			
Inventories	20	26,387	57,474
Trade receivables	21	15,248	47,533
Amounts due from related companies	33(c)	30,151	–
Tax recoverable		994	–
Prepayments, deposits and other receivables	22	31,407	124,127
Cash and cash equivalents	23	84,435	30,342
		188,622	259,476
Total assets		191,063	260,198
EQUITY			
Share capital	28	31,249	31,249
Reserves	29	20,806	91,373
Total equity		52,055	122,622
LIABILITIES			
Current liabilities			
Amounts due to related companies	33(d)	94,546	39,634
Amounts due to directors	33(e)	–	1,942
Trade payables	25	31,542	61,846
Accruals and other payables	26	12,920	34,154
		139,008	137,576
Total liabilities		139,008	137,576
Total equity and liabilities		191,063	260,198
Net current assets		49,614	121,900
Total assets less current liabilities		52,055	122,622

BALANCE SHEET
As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	19	4	4
Current assets			
Prepayments, deposits and other receivables	22	407	1,069
Amount due from a subsidiary	24	70,003	–
Cash and cash equivalents	23	27	16
		70,437	1,085
Total assets		70,441	1,089
EQUITY			
Share capital	28	31,249	31,249
Reserves	29	22,634	(45,951)
Total equity		53,883	(14,702)
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	24	16,332	13,087
Accruals and other payables	26	226	2,704
Total liabilities		16,558	15,791
Total equity and liabilities		70,441	1,089
Net current assets/(liabilities)		53,879	(14,706)
Total assets less current liabilities		53,883	(14,702)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company										
	Share capital	Share premium account	Statutory surplus reserve	Exchange fluctuation reserve	Capital reserve	Special reserve	Share option reserve	Accumu-lated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	31,249	723,462	–	8,551	8	341,800	52	(1,097,040)	8,082	(16,866)	(8,784)
Exchange difference on translation of financial statements of oversea subsidiaries	–	–	–	6,346	–	–	–	–	6,346	–	6,346
Profit for the year	–	–	–	–	–	–	–	116,022	116,022	965	116,987
Total recognised income and expense for the year	–	–	–	6,346	–	–	–	116,022	122,368	965	123,333
Equity-settled share-based payment expenses – Amount recognised during the year	–	–	–	–	–	–	52	–	52	–	52
Disposal of subsidiaries	–	–	–	(7,872)	(8)	–	–	–	(7,880)	15,901	8,021
Transfer to retained earnings upon disposal of subsidiaries	–	–	–	–	–	(341,800)	–	341,800	–	–	–
	–	–	–	(7,872)	(8)	(341,800)	52	341,800	(7,828)	15,901	8,073
At 31 December 2007	31,249	723,462	–	7,025	–	–	104	(639,218)	122,622	–	122,622
At 1 January 2008	31,249	723,462	–	7,025	–	–	104	(639,218)	122,622	–	122,622
Exchange difference on translation of financial statements of oversea subsidiaries	–	–	–	6,692	–	–	–	–	6,692	–	6,692
Loss for the year	–	–	–	–	–	–	–	(78,031)	(78,031)	–	(78,031)
Total recognised income and expense for the year	–	–	–	6,692	–	–	–	(78,031)	(71,339)	–	(71,339)
Equity-settled share-based payment expenses – Amount recognised during the year	–	–	–	–	–	–	772	–	772	–	772
– Forfeiture of share options	–	–	–	–	–	–	(112)	112	–	–	–
Transfer	–	–	7,904	–	–	–	–	(7,904)	–	–	–
	–	–	7,904	–	–	–	660	(7,792)	772	–	772
At 31 December 2008	31,249	723,462	7,904	13,717	–	–	764	(725,041)	52,055	–	52,055

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
Operating activities		
(Loss)/profit before income tax		
– Continuing operations	(20,457)	84,650
– Discontinued operations *(note 16(c))*	(57,574)	32,400
	(78,031)	117,050
Adjustments for:		
Equity-settled payment expenses	772	52
Loss on disposal of subsidiaries *(note 16(a))*	–	8,021
Interest payable waived by a minority shareholder	–	(23,198)
Finance costs	448	12,316
Share of profits less losses of associates	–	(6,900)
Bank interest income	(356)	(1,528)
Loss on disposal of property, plant and equipment	7	5
Depreciation	297	8,914
Impairment of trade receivables	36,368	–
Write-down of inventories	13,349	1,151
Operating (loss)/profit before working capital changes	(27,146)	115,883
Increase in trade receivables	(4,083)	(54,852)
Decrease in bills receivable	–	78
Decrease/(increase) in prepayments, deposits and other receivables	92,720	(112,961)
Decrease/(increase) in inventories	17,738	(32,040)
Decrease in net amounts due from associates	–	1,864
Increase in amounts due from related companies	(30,151)	–
(Decrease)/increase in trade payables	(30,304)	51,992
(Decrease)/increase in amounts due to directors	(1,942)	1,942
(Decrease)/increase in accruals and other payables	(21,234)	29,298
Increase in amounts due to related companies	54,912	33,569
Cash generated from operations	50,510	34,773
Discounting charges paid	(448)	–
Income tax paid	(994)	(63)
Net cash generated from operating activities	49,068	34,710
Investing activities		
Interest received	356	1,528
Dividends received from associates	–	4,000
Disposal of subsidiaries *(note 30)*	–	(52,007)
Purchase of property, plant and equipment	(1,994)	(1,630)
Net cash used in investing activities	(1,638)	(48,109)
Net increase/(decrease) in cash and cash equivalents	47,430	(13,399)
Effect of foreign exchange rate changes	6,663	6,346
	54,093	(7,053)
Cash and cash equivalents at 1 January	30,342	37,395
Cash and cash equivalents at 31 December	84,435	30,342
Analysis of balances of cash and cash equivalents		
Cash and bank balances	84,435	30,342

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. GENERAL INFORMATION

Yun Sky Chemical (International) Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong. The address of its registered office and principal place of business is Room 1211, 12/F, Tower 1, New World Tower, 18 Queen's Road Central, Hong Kong. The Company and its subsidiaries (collectively the "Group") are principally engaged in the manufacture and sale of phosphorus products and trading of optical products. The Group was also engaged in manufacture and sale of PVC products and manufacture of optical products which was discontinued during the current and last years respectively. Further details refer to note 16.

During the year ended 31 December 2007, the Group entered into certain leasing agreements with Yunnan Phosphorus Group Co., Ltd and its subsidiaries ("Yunphos Group") under which the Group leased the premises, plant and machinery and equipment for the manufacture of phosphorus and PVC products, and certain agreements for the purchases of coal, phosphorus raw materials, PVC ancillary materials and phosphorus ancillary materials, sales of phosphorus products and PVC products. Most of the above leasing and purchase agreements with Yunphos Group were terminated or expired during the year. Further details of the above transactions refer to note 33(b).

The financial statements are presented in Hong Kong Dollars, unless otherwise stated, which is same as the functional currency of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rule"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries.

The financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

(c) Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has where applicable applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment is required.

The Group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2008.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 1, HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 2	Members' Share in Co-operative Entities and Similar Instruments[2]
HK(IFRIC) – Int 9 (Amendment)	Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives[6]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods beginning on or after 1 July 2008

[5] Effective for annual periods beginning on or after 1 October 2008

[6] Effective for annual periods ending on or after 30 June 2009

[7] Effective for annual periods ending on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The Company's directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net asset of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses, unless the investments are classified as held for sale (or included in a disposal group that is classified as held for sales).

(e) Property, plant and equipment

Buildings are carried at fair values less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of assets. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings are self-use buildings.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation of property, plant and equipment is calculated using the straight-line method, less their residual values, over their estimated useful lives as follows:

Buildings	Over the lease term
Plant and machinery	10-15 years
Furniture, fixtures and equipment	5-10 years
Motor vehicles	5 years

The asset's residue values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(f) Construction in progress

Construction in progress represents plant and machinery under construction, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(g) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

Objective evidence of impairment 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; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt 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.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts); and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rule, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost 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.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost without any difference between cost and redemption value being recognised in the consolidated income statement over the period of borrowings using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measures, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts, if any, that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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 future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong Dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong Dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

(q) Employees benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(r) Revenue recognition

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 in the consolidated income statement as follows:

(i) Sale of goods

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Commission service income

Commission service income is recognised when the services are rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Grant income

Grant income is recognised upon the granting of subsidy by the relevant authorities when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to them.

(s) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(t) Related parties

Parties are 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 the key management personnel of the Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;

(v) the party is a close member of the family of any individual 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.

(u) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operation, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise corporate assets, tax balances, corporate and financing expenses.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables and payables, bank deposits, amounts due to directors, amounts due from and to related companies. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and other price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. The trade receivables are due within 30 to 180 days from the date of billing. Trade debtors with balances that are more than 180 days from the date of billing are requested to settle all outstanding balances before any further credit is granted. The Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

At the balance sheet date, the Group has a certain concentration of credit risk of 82% (2007: 36%) and 99% (2007: 60%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2008, respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(ii) *Deposits with banks*

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to manage liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The following table shows that time periods after the balance sheet date during which contractual payments, presented on an undiscounted basis, are due to be made. These payments include, among others, interest payments computed using contractual rates (or fixed rate instruments) under the Group's non-derivative financial liabilities which are due to be paid.

Group

	2008			2007		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables and accruals	44,462	44,462	44,462	96,000	96,000	96,000
Amounts due to related companies	94,546	94,546	94,546	39,634	39,634	39,634
Amounts due to directors	–	–	–	1,942	1,942	1,942
	139,008	139,008	139,008	137,576	137,576	137,576

Company

	2008			2007		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	226	226	226	2,704	2,704	2,704
Amount due to a subsidiary	16,332	16,332	16,332	13,087	13,087	13,087
	16,558	16,558	16,558	15,791	15,791	15,791

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from cash at banks. The following table details the interest rate profile of the Group's and the Company's interest-generating financial assets at the balance sheet date:

Group

	2008		2007	
	Effective interest rate	*HK$'000*	**Effective interest rate**	*HK$'000*
Cash and cash equivalents	0.71%	84,435	2.6%	30,342

Company

	2008		2007	
	Effective interest rate	*HK$'000*	**Effective interest rate**	*HK$'000*
Cash and cash equivalents	0.1%	27	2.6%	16

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease 100 basis points in interest rates, with all other variable held constant, would increase/decrease the Group's profit after tax and retained profit for the year approximately HK$844,000 (2007: HK$303,000). Other components of equity would not be affected by the changes in interest rates for both years.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(d) Commodity price risk

The major raw material used in the production of the Group's products included phosphorus and coal. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(e) Foreign currency risk

The Group is exposed to currency risk primarily from its trade receivables and bank deposits that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("US$") and Renminbi ("RMB").

(i) Exposure to currency risk

The following table details the Group's and the Company's major exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in currencies other than the functional currency of the entity to which they relate.

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Cash and cash equivalents				
US$	11,621	491	8	8
RMB	2,539	29,424	–	–
Trade receivables				
US$	–	5,827	–	–
RMB	15,248	41,706	–	–
Prepayments, deposits and other receivables				
RMB	30,928	123,008	–	–
Amounts due from related companies				
RMB	12,686	–	–	–
Liabilities				
Amounts due to related companies				
US$	592	17,881	–	–
RMB	7,297	21,753	–	–
Accruals and other payables				
US$	4,654	13	–	–
RMB	7,291	33,379	–	–
Trade payables				
RMB	31,542	61,846	–	–
Total assets				
US$	11,621	6,318	8	8
RMB	61,401	194,138	–	–
Total liabilities				
US$	5,246	17,894	–	–
RMB	46,130	116,978	–	–

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes trade and other receivables and payables, and bank deposits and amounts due from and to related companies where the denomination of the balances is in a currencies other than the functional currency.

	2008			2007		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity
		HK$'000	*HK$'000*		*HK$'000*	*HK$'000*
US$	5%	318	–	5%	(578)	–
	(5%)	(318)	–	(5%)	578	–
RMB	5%	764	–	5%	3,858	–
	(5%)	(764)	–	(5%)	(3,858)	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

Consistent with the industry practice, the Group monitors its capital structure on the basis of net debt-to-capital ratio, which is calculated as the Group's total borrowings as shown in consolidated balance sheet less cash and cash equivalents. Total capital is defined as shareholders' equity over the Group's total debts.

The net debt-to-capital ratio as at 31 December 2008 and 2007 were as follows:

	The Group	
	2008	**2007**
	HK$'000	*HK$'000*
Total liabilities		
– Trade and other payables and accruals	44,462	96,000
– Amounts due to related companies	94,546	39,634
– Amounts due to directors	–	1,942
Total debts	139,008	137,576
Less: Cash and cash equivalents	(84,435)	(30,342)
Net debts	54,573	107,234
Total equity	52,055	122,622
Net debt-to-capital ratio	1.05	0.87

Neither the Company nor any of it subsidiaries are subject to externally imposed capital requirements.

(g) Fair values

The fair values of the financial assets and liabilities of the Group and the Company are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of trade and other receivables

The Group makes allowance for impairment of trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are made with reference to age analysis of inventories, projection of expected sale volume and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts to inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(c) Income taxes

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. TURNOVER

The Group is principally engaged in the manufacture and sale of phosphorus products and trading of optical products. The Group was also engaged in manufacture and sale of PVC products and manufacture of optical products which were discontinued during the current and last years, respectively.

Turnover represents the sales at invoiced value of goods sold to customers net of sales tax, value added tax, goods returns and allowances. An analysis of the Group's turnover for the year is as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Continuing operations		
Manufacturing and sale of phosphorus products	593,055	373,047
Trading of optical products	34,001	–
	627,056	373,047
Discontinued operations *(note 16(b))*		
Manufacturing and sale of optical products	–	114,828
Manufacturing of PVC products	191,667	93,959
	191,667	208,787
	818,723	581,834

6. OTHER REVENUE AND NET INCOMES

	2008	2007
	HK$'000	*HK$'000*
Continuing operations		
Bank interest income	356	72
Government grants	851	–
Commission income received from a related company	–	1,300
Net exchange gain	–	514
Others	202	2
	1,409	1,888
Discontinued operations *(note 16(b))*		
Bank interest income	–	1,456
Government grants	–	774
Rental income	–	166
Others	–	2,992
	–	5,388
	1,409	7,276

7. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Continuing operations	–	–
Discontinued operations *(note 16(b))*		
Discounting charges	448	–
Other interest *(note 33(b))*	–	12,316
	448	12,316
	448	12,316

8. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is stated after charging/(crediting) the following:

	2008	2007
	HK$'000	*HK$'000*
Continuing operations		
Staff costs (including directors' remuneration)		
– Salaries, wages and other benefits	24,132	14,166
– Retirement scheme contributions	2,715	862
– Equity-settled share-based payment expenses	772	52
Total staff costs	27,619	15,080
Auditor's remuneration		
– audit service	345	550
– non-audit services	235	310
Cost of inventories sold	598,245	264,084
Depreciation of property, plant and equipment	285	18
Loss on disposal of property, plant and equipment	4	5
Operating lease rentals in respect of properties, machinery and equipment	26,254	24,446
Write-down of inventories	13,349	–

	2008	2007
	HK$'000	*HK$'000*
Discontinued operations *(note 16(b))*		
Staff costs (including directors' remuneration)		
– Salaries, wages and other benefits	14,154	35,492
– Retirement scheme contributions	1,900	2,328
– Equity-settled share-based payment expenses	–	–
Total staff costs	16,054	37,820
Auditor's remuneration		
– audit service	230	380
– non-audit services	–	80
Cost of inventories sold	192,823	166,895
Depreciation of property, plant and equipment	12	8,896
Impairment on trade receivables	36,368	–
Loss on disposal of property, plant and equipment	3	–
Operating lease rentals in respect of properties, machinery and equipment	28,030	13,504
Write-down of inventories	–	1,151
Accrued interest waived by a minority shareholder *(note 33(b))*	–	(23,198)

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	2008 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Liu Yee Nee *(note (i))*	–	–	–	–
Louie Mei Po *(note (i))*	–	–	–	–
Li Wei	–	501	12	513
Zhou Jing	–	363	12	375
Zhao Jun *(note (iii))*	–	454	12	466
Wang An Kang *(note (iv))*	–	245	–	245
Independent non-executive directors				
Jacobsen William Keith *(note (i))*	32	–	–	32
Ng Wai Hung *(note (ii))*	58	–	–	58
Wu Wang Li *(note (ii))*	39	–	–	39
Wu Bin *(note (iii))*	133	–	–	133
Choi Tse Kit, Sammy *(note (v))*	122	–	–	122
Tam King Ching, Kenny *(note (v))*	122	–	–	122
	506	1,563	36	2,105

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	2007 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Zhao Jun	–	600	12	612
Li Wei	–	500	12	512
Zhou Jing	–	480	12	492
Wang An Kang	–	480	–	480
Independent non-executive directors				
Wu Bin	180	–	–	180
Choi Tse Kit, Sammy	180	–	–	180
Tam King Ching, Kenny	180	–	–	180
	540	2,060	36	2,636

Notes:

(i) Appointed on 26 September 2008.
(ii) Appointed on 4 September 2008.
(iii) Resigned on 26 September 2008.
(iv) Resigned on 21 July 2008.
(v) Resigned on 4 September 2008.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include three directors (2007: four) whose emoluments are disclosed in note 9 above. Details of the emolument of the remaining two (2007: one) individual are as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,047	953
Equity-settled share-based payment expenses	772	52
Retirement scheme contributions	18	12
	1,837	1,017

The emoluments of the two (2007: one) individual fall within the following bands:

	Number of employees	
	2008	2007
Nil – HK$1,000,000	2	–
HK$1,000,000 – HK$1,500,000	–	1
	2	1

11. INCOME TAX

	2008	2007
	HK$'000	*HK$'000*
Continuing operations		
Current year	–	–

The charge for the years can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	2008	2007
	HK$'000	*HK$'000*
(Loss)/profit before taxation	(20,457)	84,650
Notional tax on (loss)/profit before taxation, calculated at rates applicable to (loss)/profit in the countries concerned	(6,128)	24,520
Tax effect on non-taxable incomes	(52)	(2,970)
Tax effect of non-deductible expenses	181	–
Tax effect of temporary timing differences not recognised	1,740	–
Utilisation of previously unrecognised tax losses	(1,688)	–
Tax effect on unused tax losses not recognised	9,230	1,117
Tax effect of tax exemptions granted to PRC subsidiaries	(3,283)	(22,667)
Tax charge	–	–

	2008	2007
	HK$'000	*HK$'000*
Discontinued operations *(note 16(b))*		
Current year		
PRC enterprise income tax	–	63

The charge for the years can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	2008	2007
	HK$'000	*HK$'000*
(Loss)/profit before taxation *(note 16(c))*	(57,574)	32,400
Notional tax on (loss)/profit before taxation, calculated at rates applicable to (loss)/profit in the countries concerned	(14,525)	6,175
Tax effect on non-taxable incomes	–	(2,184)
Tax effect of non-deductible expenses	9,374	–
Tax effect of temporary timing differences not recognised	6,187	–
Utilisation of previously unrecognised tax losses	(537)	–
Tax effect on unused tax losses not recognised	–	402
Tax effect of tax exemptions granted to PRC subsidiaries	(499)	(4,330)
Tax charge	–	63

Notes:

(i) Pursuant to the rules and regulations of British Virgin Islands ("BVI"), the Group is not subject to any income tax in BVI.

(ii) On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

No provision for the Hong Kong Profits Tax has been made as the Group sustained losses in Hong Kong for taxation purposes during years ended 31 December 2008 and 2007.

(iii) The National People's Congress of the PRC approved the Corporate Income Tax Law of the PRC (the "New Tax Law") on 16 March 2007. With effective from 1 January 2008, the tax rate applicable to the enterprises established in the PRC will be unified at 25% with certain grandfather provisions and preferential provisions.

The Group's subsidiaries Fangcheng Huahai Chemicals Co., Ltd ("Huahai") and Kunming Huadian Chemicals Co., Ltd ("Huadian") are entitled to exemption from the PRC Foreign Enterprise Income Tax ("FEIT") for two years from their first profit making year, followed by a 50% tax relief for the next three years. The first profit making year of Huahai and Huadian was 2006 and 2007, respectively, they were entitled to a 100% exemption from the FEIT and local income tax of 30% and 3% respectively during the year ended 31 December 2007. Pursuant to the New Tax Law, Huahai and Huadian continued to be entitled to a 50% and 100%, respectively, of tax relief from FEIT of 25% during the year ended 31 December 2008. No provision for FEIT has been made for Huahai as it sustained a loss during the year ended 31 December 2008.

12. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes profit of approximately HK$67,813,000 (2007: loss of approximately HK$5,977,000) which has been dealt with in the financial statements of the Company during the year.

13. DIVIDENDS

No dividend was declared and paid for the years ended 31 December 2008 and 2007, nor has any dividend been proposed since the balance sheet date.

14. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

	2008	**2007**
For continuing and discontinued operations		
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	(78,031)	116,022
Weighted average number of ordinary shares	3,124,862,734	3,124,862,734
Basic (loss)/earnings per share *(HK cents)*	(2.50)	3.71
Continuing operations		
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	(20,457)	84,650
Weighted average number of ordinary shares	3,124,862,734	3,124,862,734
Basic (loss)/earnings per share *(HK cents)*	(0.66)	2.71
Discontinued operations		
(Loss)/profit attributable to equity holders of the Company *(HK$'000)*	(57,574)	31,372
Weighted average number of ordinary shares	3,124,862,734	3,124,862,734
Basic (loss)/earnings per share *(HK cents)*	(1.84)	1.00

The basis (loss)/earnings per share is based on the weighted average number of shares of 3,124,862,734 (2007: 3,124,862,734) during the year.

(b) Diluted earnings per share

	2008	2007
For continuing and discontinued operations		
Profit attributable to equity holders of the Company *(HK$'000)*	N/A	116,022
Weighted average number of ordinary shares	N/A	3,131,414,458
Diluted earnings per share *(HK cents)*	N/A	3.71
Continuing operations		
Profit attributable to equity holders of the Company *(HK$'000)*	N/A	84,650
Weighted average number of ordinary shares	N/A	3,131,414,458
Diluted earnings per share *(HK cents)*	N/A	2.71
Discontinued operation		
Profit attributable to equity holders of the Company *(HK$'000)*	N/A	31,372
Weighted average number of ordinary shares	N/A	3,131,414,458
Diluted earnings per share *(HK cents)*	N/A	1.00

No diluted loss per share is presented during the year ended 31 December 2008 as the exercise of the potential dilutive ordinary shares would result in a reduction in loss per share.

The diluted earnings per share during the year ended 31 December 2007 was based on 3,131,414,458 shares which was the weighted average number of shares during the year ended 31 December 2007 adjusted for the number of dilutive potential shares under the share option scheme.

15. SEGMENTS

(a) Business segments

The Group is principally engaged in the following main business segments during the years ended 31 December 2008 and 2007:

Phosphorus products – manufacturing and sale of phosphorus products

Optical trading – trading of optical products

PVC products – manufacturing and sale of PVC products (discontinued during the year ended 31 December 2008)

Optical manufacturing – manufacturing and sale of optical products (discontinued during the year ended 31 December 2007)

The segment results and capital expenditure and other segment items for the years ended 31 December 2008 and 2007 and segment assets and liabilities at 31 December 2008 and 2007 are as follows:

2008

	Continuing operations				Discontinued operations	
	Phosphorus products	Optical products	Unallocated	Total	PVC products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note 16(b))*	*HK$'000*
Segment revenue:						
Revenue from external customers	593,055	34,001	–	627,056	191,667	818,723
Other revenue	1,103	1	305	1,409	–	1,409
Total revenue	594,158	34,002	305	628,465	191,667	820,132
Segment results	(13,184)	(21)	–	(13,205)	(57,126)	(70,331)
Unallocated expenses, net			(7,252)	(7,252)	–	(7,252)
Finance costs				–	(448)	(448)
Loss before income tax				(20,457)	(57,574)	(78,031)
Income tax				–	–	–
Loss for the year				(20,457)	(57,574)	(78,031)
Assets and liabilities:						
Segment assets	90,304	18,165	–	108,469	12,855	121,324
Unallocated assets	–	–	69,739	69,739	–	69,739
Total assets	90,304	18,165	69,739	178,208	12,855	191,063
Segment liabilities	117,823	17,200	–	135,023	3,739	138,762
Unallocated liabilities	–	–	246	246	–	246
Total liabilities	117,823	17,200	246	135,269	3,739	139,008
Other segment information:						
Capital expenditure	1,994	–	–	1,994	–	1,994
Depreciation	293	–	–	293	4	297
Impairment on trade receivables	–	–	–	–	36,368	36,368
Write-down of inventories	13,349	–	–	13,349	–	13,349

2007

	Continuing operations			Discontinued operations			
	Phosphorus products	Unallocated	Total	Optical products	PVC products	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note 16(a)&(b))*	*HK$'000*
Segment revenue:							
Revenue from external customers	373,047	–	373,047	114,828	93,959	208,787	581,834
Other revenue	1,300	588	1,888	4,614	774	5,388	7,276
Total revenue	374,347	588	374,935	119,442	94,733	214,175	589,110
Segment results	93,306	2	93,308	3,078	19,561	22,639	115,947
Unallocated expenses, net	–	(8,658)	(8,658)	–	–	–	(8,658)
Finance costs			–	(12,316)	–	(12,316)	(12,316)
Share of profits and losses of associates			–	6,900	–	6,900	6,900
Accrued interest waived			–	23,198	–	23,198	23,198
Profit before income tax			84,650	20,860	19,561	40,421	125,071
Loss on disposal of subsidiaries			–	(8,021)	–	(8,021)	(8,021)
Income tax			–	(63)	–	(63)	(63)
Profit for the year			84,650	12,776	19,561	32,337	116,987
Assets and liabilities:							
Segment assets	139,962	–	139,962	–	111,660	111,660	251,622
Unallocated assets	–	8,576	8,576	–	–	–	8,576
Total assets	139,962	8,576	148,538	–	111,660	111,660	260,198
Segment liabilities	104,071	–	104,071	–	17,362	17,362	121,433
Unallocated liabilities	–	16,143	16,143	–	–	–	16,143
Total liabilities	104,071	16,143	120,214	–	17,362	17,362	137,576
Other segment information:							
Capital expenditure	633	–	633	997	–	997	1,630
Depreciation	6	23	29	8,885	–	8,885	8,914
Write-down of inventories	–	–	–	1,151	–	1,151	1,151

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers.

	2008	**2007**
	HK$'000	*HK$'000*
Continuing operations		
The PRC	461,916	340,639
East Asia (including Hong Kong)	165,140	32,408
Segment revenue from external customers	627,056	373,047
Discontinued operations		
The PRC	171,612	87,917
East Asia (including Hong Kong)	20,055	20,752
United States of America	–	44,812
Europe	–	48,322
Others	–	6,984
Segment revenue from external customers	191,667	208,787

Segment assets and capital expenditure are based on the geographical location of the assets.

	Carrying amount of segment assets		**Capital expenditure**	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
The PRC	85,848	140,572	1,973	624
East Asia (including Hong Kong)	92,360	7,966	21	9
	178,208	148,538	1,994	633
Discontinued operations				
The PRC	12,855	111,660	–	949
East Asia (including Hong Kong)	–	–	–	48
	12,855	111,660	–	997
	191,063	260,198	1,994	1,630

16. DISCONTINUED OPERATIONS

On 11 September 2008, the Group and Yunphos Group, a related party, entered into a leasing termination agreement, pursuant to which both parties agreed that the Group terminated the leasing of the PVC factory premises, the machinery and equipment for manufacture of its PVC products, as further detailed in note 33(b)(vi). In the opinion of the Company's directors, after the termination of the above leasing, the Group ceased the manufacture and sale of PVC business at 31 December 2008.

On 2 November 2007, the Company entered into a sale and purchase agreement with an independent third party (the "Purchaser"), pursuant to which the Company agreed to sell and the Purchaser agreed to purchase 70% equity interest in Profitown Investment Corporation ("Profitown") and its subsidiaries (collectively referred to as the "Profitown Group") at a nominal consideration of HK$1 in cash. The disposal was completed on 30 November 2007. Profitown Group had been making loss for the past five years prior to the disposal and had net assets of approximately HK$Nil and total liabilities of HK$196,743,000, of which, HK$170,033,000 was payable to Probest Holdings Inc. ("Probest") a minority shareholder of Profitown at the date of disposal. During the year ended 31 December 2007, Probest waived interests of approximately HK$23,198,000 payable by the Profitown Group. Upon completion of the disposal of the 70% equity interest in Profitown Group, the manufacture of optical business segment was discontinued.

(a) The (loss)/profit from the discontinued operations for the years ended 31 December 2008 and 2007 is as follows:

	2008	**2007**		
	PVC products	**Optical products**	**PVC products**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(Loss)/profit of discontinued operations for the year *(note 16(b))*	(57,574)	20,797	19,561	40,358
Loss on disposal	–	(8,021)	–	(8,021)
(Loss)/profit for the year from discontinued operations after tax	(57,574)	12,776	19,561	32,337

(b) Analysis of the results of discontinued operations

		2008		2007	
		PVC	Optical	PVC	
		products	products	products	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	5	191,667	114,828	93,959	208,787
Cost of sales		(192,823)	(98,231)	(68,664)	(166,895)
Gross profit/(loss)		(1,156)	16,597	25,295	41,892
Other revenue and net incomes	6	–	4,614	774	5,388
Selling and distribution cost		(11,110)	(9,524)	(3,255)	(12,779)
Administrative expenses		(8,492)	(6,204)	(3,253)	(9,457)
Other operating expenses		–	(1,254)	–	(1,254)
Write-down of inventories		–	(1,151)	–	(1,151)
Impairment on trade receivables	*21(b)*	(36,368)	–	–	–
(Loss)/profit from operations		(57,126)	3,078	19,561	22,639
Finance costs	7	(448)	(12,316)	–	(12,316)
Share of results of associate		–	6,900	–	6,900
Accrued interest waived	*33(b)*	–	23,198	–	23,198
(Loss)/profit from operation before income tax	8	(57,574)	20,860	19,561	40,421
Income tax	11	–	(63)	–	(63)
(Loss)/profit for the year		(57,574)	20,797	19,561	40,358

(c) Analysis of the cash flows from discontinued operations

	2008 Manufacture and sale of PVC products	Manufacture of optical products	2007 Manufacture and sale of PVC products	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(Loss)/profit before income tax *(note 16b)*	(57,574)	20,860	19,561	40,421
Loss on disposal *(note 30)*	–	(8,021)	–	(8,021)
(Loss)/profit before income tax per consolidation cash flow statement	(57,574)	12,839	19,561	32,400
Net cash inflow/(outflow) from operating activities	61,464	10,613	(98,508)	(87,895)
Net cash inflow from investing activities	–	4,707	–	4,707
Net cash (outflow)/inflow from financing activities	(61,464)	–	98,508	98,508
Net cash inflow incurred by the discontinued operations	–	15,320	–	15,320

(d) Operating lease commitments – discontinued operations

	2008	2007
	HK$'000	*HK$'000*
Within one year	–	228
After 1 year but within 5 years	–	684
	–	912

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation					
At 1/1/2007	17,587	161,075	51,092	1,542	231,296
Additions	–	334	335	497	1,166
Disposal	–	(9)	–	(80)	(89)
Disposal of subsidiaries *(note 30)*	(17,587)	(161,314)	(51,206)	(1,953)	(232,060)
At 31/12/2007 and 1/1/2008	–	86	221	6	313
Exchange adjustments	–	5	4	–	9
Additions	–	1,090	86	–	1,176
Transfer from construction in progress *(note 18)*	–	1,310	–	–	1,310
Disposal	–	–	(10)	–	(10)
At 31/12/2008	–	2,491	301	6	2,798
Accumulated depreciation and impairment					
At 1/1/2007	–	140,382	34,547	1,542	176,471
Charge for the year	733	5,454	2,708	19	8,914
Written back on disposal	–	(4)	–	(80)	(84)
Written back on disposal of subsidiaries *(note 30)*	(733)	(145,831)	(37,202)	(1,480)	(185,246)
At 31/12/2007 and at 1/1/2008	–	1	53	1	55
Exchange adjustments	–	7	1	–	8
Charge for the year	–	252	44	1	297
Written back on disposal	–	–	(3)	–	(3)
At 31/12/2008	–	260	95	2	357
Net book value					
At 31/12/2008	–	2,231	206	4	2,441
At 31/12/2007	–	85	168	5	258

18. CONSTRUCTION IN PROGRESS

Group

	2008	2007
	HK$'000	*HK$'000*
At 1 January	464	–
Exchange adjustments	28	–
Additions	818	464
Transfer to property, plant and equipment *(note 17)*	(1,310)	–
At 31 December	–	464

Construction in progress as at 31 December 2007 represented plant and machinery under construction.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	*HK$'000*
Unlisted shares, at cost	4	4

The following is a list of the principal subsidiaries at 31 December 2008:

Name	Place of incorporation and operation	Principal activities	Nominal value of issued ordinary/ registered share capital	Interest held Directly	Interest held Indirectly
Anchorage Trading Limited	Hong Kong	Sales agent of an overseas principal	HK$1	100%	–
Top Galaxy Trading Ltd	Hong Kong	Trading of optical products	HK$1	100%	–
Advance Base Holdings Ltd	Hong Kong	Consultancy	HK$1	–	100%
Sharp Capital Development Ltd	Hong Kong	Investment holding	HK$1	100%	–
Sharp Universe Ltd	BVI	Consultancy	US$1	100%	–
Brilliant Sign Ltd	BVI	Investment holding	US$1	100%	–
Fangcheng Huahai Chemcials Co., Ltd. *(note)*	The PRC	Manufacture and sale of phosphorus products	HK$5,000,000	–	100%
Kunming Huadian Chemcials Co., Ltd. *(note)*	The PRC	Manufacture and sale of phosphorus and PVC products	HK$10,500,000	–	100%

Note: These entities are wholly foreign owned enterprises established in the PRC.

20. INVENTORIES

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Raw materials	17,056	21,949
Packaging materials	718	3,535
Work in progress	–	648
Finished goods	7,150	23,549
Sub-materials and parts	1,463	7,793
	26,387	57,474

21. TRADE RECEIVABLES

(a) Ageing analysis

The Group normally grants a credit period of 30 to 180 days to its customers.

Ageing analysis of trade receivables as of the balance sheet date was as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
0 to 30 days	191	46,745
31 to 60 days	302	784
61 to 90 days	4,861	4
91 to 180 days	44,852	–
181 to 365 days	1,375	–
More than 365 days	35	–
	51,616	47,533
Provision for impairment	(36,368)	–
	15,248	47,533

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for doubtful debts during the year are as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
At 1 January	–	1,919
Impairment loss recognised *(note 16(b))*	36,368	–
Disposal of subsidiaries	–	(1,919)
At 31 December	36,368	–

The Group does not hold any collateral over the balance.

As at 31 December 2008, a trade debtor of the Group of HK$36,368,000 was determined to be impaired. The balance was related to customer that was in financial difficulty and management assessed that the recoverability of the balance was remote. Accordingly, specific allowances for doubtful debt of HK$36,368,000 was recognised during the year.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Neither past due nor impaired	13,838	47,533
1 to 180 days past due	1,375	–
Over 180 days past due	35	–
	15,248	47,533

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Advances to suppliers *(note)*	6,046	112,704	–	–
Value added tax refundable	24,754	9,898	–	–
Prepayments	108	1,026	9	676
Deposits	449	444	394	393
Other receivables	50	55	4	–
	31,407	124,127	407	1,069

Note: This amount mainly represents the deposits made to independent third party suppliers to secure the supply of coal and phosphorus materials and is to be offset through delivery of purchases of coal and phosphorus materials in the coming year.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	84,435	30,342	27	16
Cash and cash equivalents	84,435	30,342	27	16

24. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

25. TRADE PAYABLES

The ageing analysis of the Group's trade payables, based on payment due date, is as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
0 to 30 days	4,754	30,082
31 to 60 days	10,320	18,165
61 to 90 days	5,279	557
91 to 180 days	1,178	388
181 to 365 days	9,677	12,654
Over 365 days	334	–
	31,542	61,846

26. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	7,660	3,499	214	2,704
Receipts in advance *(note)*	5,160	22,229	–	–
Value added tax payable	–	7,430	–	–
Other payables	100	996	12	–
	12,920	34,154	226	2,704

Note: Receipts in advance represent the deposits received on sales orders from customers, which are unsecured, interest-free and to be offset against the invoiced amounts of sales of goods to be delivered in the coming year.

27. DEFERRED TAXATION

The principal component of the Group's and the Company's net deferred tax asset not recognised in the financial statements is as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unused tax losses	30,753	34,942	30,718	34,153

The Group and the Company has not recognised deferred assets in respect of cumulated tax losses of HK$186,376,000 (2007: HK$199,668,000) and HK$186,170,000 (2007: HK$195,148,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction. All the Group's and Company's tax losses arise from Hong Kong which do not expire under current tax legislation.

The Group and the Company had no significant potential deferred tax liabilities for which provision has not been made for the years ended 31 December 2008 and 2007.

28. SHARE CAPITAL

	2008	**2007**
	HK$'000	*HK$'000*
Authorised:		
300,000,000,000 ordinary shares of HK$0.01 each	3,000,000	3,000,000
Issued and fully paid:		
3,124,862,734 (2007: 3,124,862,734) ordinary shares of HK$0.01 each	31,249	31,249

There were no movements in the issued share capital of the Company during the years ended 31 December 2008 and 2007.

29. RESERVES

(a) Group

The amounts of the Group reserves and the movements therein during the year are presented in the consolidated statement of changes in equity.

Notes:

(i) The share premium account represents the excess of the issued price net of any share issue expenses over the par value of the share issued.

(ii) The statutory reserves refer to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of the profit after tax of the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after tax unless the aggregate amount standing to the credit of this reserve exceeds 50% of the registered capital of the PRC subsidiaries. The statutory reserve fund can be used to make up prior year losses of the PRC subsidiaries. During the year, transfers of approximately HK$1,420,000 and HK$6,484,000 were made out of the retained profits to the statutory reserves of the PRC subsidiaries, which represented 10% of the profit after tax based on the PRC subsidiaries for the years ended 31 December 2008 and 2007, respectively.

(iii) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC.

(iv) Special reserve of HK$341,800,000 was created under a Court Ruling in 2003 while the Company applied for the capital reduction and was related to the write down of several subsidiaries of Profitown Group. The Court ruled out that as long as such subsidiaries still exit within the Group or proved to be zero value, such amount of special reserve should be retained. However, upon the disposal of the Profitown Group on 30 November 2007, the entire balance of HK$341,800,000 was transferred to accumulated losses as a reserve movement accordingly.

(v) Distributable reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity holders of the Company was HK$Nil (2007: HK$Nil).

(b) Company

	Share premium account	**Special reserve**	**Share option reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 29(a)(i))	*(note 29(a)(iv))*			
At 1 January 2007	723,462	341,800	52	(1,105,340)	(40,026)
Equity-settled share-based payment expenses	–	–	52	–	52
Transfer on disposal of subsidiaries	–	(341,800)	–	341,800	–
Loss for the year	–	–	–	(5,977)	(5,977)
At 31 December 2007	723,462	–	104	(769,517)	(45,951)
At 1 January 2008	723,462	–	104	(769,517)	(45,951)
Equity-settled share-based payment expenses	–	–	772	–	772
Forfeiture of share options	–	–	(112)	112	–
Profit for the year	–	–	–	67,813	67,813
At 31 December 2008	723,462	–	764	(701,592)	22,634

30. DISPOSAL OF SUBSIDIARIES

On 2 November 2007, the Company entered into a sale and purchase agreement with an independent third party, pursuant to which the Company agreed to sell 70% equity interest in the Profitown Group at a nominal consideration of HK$1 in cash. Further details were disclosed in note 16 to the financial statements.

	2007
	HK$'000
The assets and liabilities disposed of at the date of disposal were as follows:	
Property, plant and equipment	46,814
Interests in associates	44,408
Inventories	16,673
Trade receivables	31,674
Prepayments, deposits and other receivables	1,453
Fixed deposits	44,767
Cash and cash equivalents	7,240
Amounts due to a minority shareholder, net	(170,033)
Provision for long service payments	(115)
Trade payables	(10,716)
Other payables	(11,320)
Tax payable	(845)
Net assets disposed of	–
Sale consideration HK$1	–
Exchange fluctuation reserve realised	(7,872)
Capital reserve realised	(8)
Minority interest	15,901
Loss on disposal *(note 16(a))*	(8,021)
Net cash outflow arising on disposal:	
Cash consideration	–
Bank balances and cash disposed of	(52,007)
	(52,007)

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 28 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, up to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their 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 associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The share option may be exercised under the Scheme at any time during a period not exceeding 5 years after the date when the scheme option is granted and expiring on the last date of such period.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following table shows the movement of the Company's share options during the years ended 31 December 2008 and 2007.

Year ended 31 December 2008

Date of share options granted	Outstanding at the beginning of the year	Granted during the year	Exercise during the year	Cancelled during the year	Outstanding at the end of the year	Subscription price	Exercise period
15/12/2005	10,000,000	–	–	(10,000,000)	–	HK$ 0.10	24/2/2008 – 23/8/2011
29/9/2008	–	12,320,000	–	–	12,320,000	HK$0.125	29/9/2008 – 28/9/2013

Share options granted and fully accepted during the year ended 31 December 2008:

Date of Grant:	29/9/2008
Vesting Period:	Vested upon granting
Exercise Period:	29/9/2008 – 28/9/2013
Exercise Price:	HK$0.125

	Number of share options granted at 29/9/2008	**Share options value at 29/9/2008** *(note (ii))* *HK$*	**Number of share options at 31/12/2008**
Grantee:			
Employee	12,320,000	764,000	12,320,000

Notes:

(i) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK$0.125.

(ii) According to the Trinomial Option Pricing Model, the theoretical aggregate value of the options was estimated at HK$764,000 as at 29 September 2008 (when the options were granted) with the following variables and assumptions:

Share Price	:	HK$0.125
Exercise Price	:	HK$0.125
Risk Free Rate	:	1.80%
Expected Dividend Rate	:	0%
Expected Volatility	:	75.03%
Expected Life of the Options	:	3 years from the date of share options granted

(iii) Options cancelled, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of ordinary shares available to be issued under the relevant share option scheme.

Year ended 31 December 2007

Date of share options granted	Outstanding at the beginning of the year	Granted during the year	Exercise during the year	Cancelled during the year	Outstanding at the end of the year	Subscription price	Exercise period
15/12/2005	10,000,000	–	–	–	10,000,000	HK$0.10	24/2/2008 – 23/8/2011

Share options granted and fully accepted during the year ended 31 December 2007:

Date of Grant:	15/12/2005
Vesting Period:	15/12/2005 – 23/02/2008
Exercise Period:	24/02/2008 – 23/08/2011
Exercise Price:	HK$0.10 per share

	Number of share options granted at 15/12/2005	**Share options value at 15/12/2005** *(note (ii))* *HK$*	**Number of share options at 31/12/2007**
Grantee:			
Employee	10,000,000	112,000	10,000,000

Notes:

(i) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK$0.075.

(ii) According to the Black-Scholes model, the theoretical aggregate value of the options was estimated at HK$112,000 as at 15 December 2005 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	3.97%, being the approximate yield of the 4-year Exchange Fund Note traded on 15/12/2005
Expected Volatility	:	24.67%, being the annualised standard deviations of the continuously compounded rates of return on the share prices of three other comparable listed Hong Kong companies with similar business operations
Expected Life of the Options	:	4 years from the date of share options granted

(iii) Options cancelled, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of ordinary shares available to be issued under the relevant share option scheme.

32. COMMITMENTS

(a) Operating lease commitments

At 31 December 2008, the Group and the Company had commitments for future minimum lease payables under non-cancellable operating leases in respect of land and buildings, machinery and equipment are as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,581	105,886	1,393	1,393
After 1 year but within 5 years	639	82,282	639	2,031
	2,220	188,168	2,032	3,424

The Group leases of its land and buildings, machinery and equipment, under operating lease arrangements for an initial period of one to three years. None of the leases includes contingent rentals.

(b) Capital commitments

At 31 December 2008, the Group had the following commitments:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Contracted but not provided for:		
Property, plant and equipment	–	1,673

33. RELATED PARTY TRANSACTIONS

(a) During the years ended 31 December 2008 and 2007, the Company's directors are of the opinion that the following companies are related parties of the Group:

Name of the related party	Relationship
Rightlink Trading Limited ("Rightlink")	Wang An Kang (note (i)) has beneficial interest
Yunnan Phosphorus Group Co., Ltd ("Yunphos")	Wang An Kang and Zhao Jun (notes (i) and (ii)) have beneficial interests
昆明東磷貿易有限公司("昆明東磷")	A subsidiary of Yunphos Group
尋甸南鋒煤業有限公司("尋甸南鋒")	A subsidiary of Yunphos Group
雲南南磷集團尋甸磷電有限公司("南磷集團尋甸")	A subsidiary of Yunphos Group
雲南南磷集團電化有限公司("南磷集團電化")	A subsidiary of Yunphos Group
雲南南磷集團進出口有限公司("南磷集團進出口")	A subsidiary of Yunphos Group
嵩明南西磷化工有限公司("嵩明南西磷化工")	A subsidiary of Yunphos Group
雲南南磷集團陸良磷化工有限公司("南磷集團陸良磷化工")	A subsidiary of Yunphos Group
防城港南磷磷化工有限公司("防城港南磷")	A subsidiary of Yunphos Group
羅平磷化工有限公司("羅平磷化工")	A subsidiary of Yunphos Group
Dongguan Hamwell Glasses Co., Ltd. ("Dongguan Hamwell")	Liu Yee Nee (note (iii)) is the legal representative
Probest Holdings Inc. ("Probest")	A minority shareholder of the Company's subsidiary Profitown which was disposed in 2007 (see note 16)
Swank International Optical Company Limited ("Swank International")	Liu Yee Nee and Louie Mei Po (note (iii) and (iv)) are the common directors

Notes:

(i) Mr. Wang An Kang was the Company's executive director and the key management of the Group during the years ended 31 December 2007 and 2008. He resigned as executive director of the Company on 21 July 2008 but continued to act as the position of the key management of the Group's subsidiaries.

(ii) Mr. Zhao Jun was the chairman and the executive director of the Company and the key management of the Group during the years ended 31 December 2007 and 2008. He resigned as the chairman and the executive director of the Company on 26 September 2008 but continued to act as the key management of the Group's subsidiaries.

(iii) Ms. Liu Yee Nee ("Ms. Liu") has been appointed as the chairman and executive director of the Company since 26 September 2008. Ms. Liu resigned as legal representative of Dongguan Hamwell on 15 December 2008. The application of Ms. Liu's resignation as legal representative to the PRC authority is still in progress at the date of this report.

(iv) Ms. Louie Mei Po has been appointed as executive director of the Company since 26 September 2008.

(b) During the years ended 31 December 2008 and 2007, the Group had the following related party transactions:

	Note	2008 HK$'000	2007 HK$'000
南磷集團尋甸			
– rental of phosphorus premises and machinery and equipment	*33(b)(iv)*	22,059	20,484
– purchases of coal	*33(b)(viii)*	–	6,138
– purchase of raw materials	*33(b)(iii)*	–	25,150
– purchase of PVC ancillary materials	*33(b)(vii)*	–	1,349
– purchase of phosphorus ancillary materials	*33(b)(x)*	715	977
南磷集團電化			
– rental of PVC premises machinery and equipment	*33(b)(vi)*	27,574	12,803
– purchases of coal	*33(b)(viii)*	–	391
尋甸南鋒			
– purchases of coal	*33(b)(viii)*	10,086	3,558
昆明東磷			
– purchases of PVC ancillary materials	*33(b)(vii)*	11,118	3,651
– purchase of phosphorus ancillary materials	*33(b)(x)*	3,246	2,709
防城港南磷			
– sales of phosphorus products	*33(b)(ii)*	(7,967)	(4,662)
– rental of phosphorus premises, machinery and equipment	*33(b)(v)*	2,757	2,561
南磷集團進出口			
– sales of phosphorus products	*33(b)(ii)*	(190,511)	(178,652)
– sales of PVC products	*33(b)(ix)*	(70,588)	(11,048)
– commission expenses	*33(b)(i)*	–	687
– purchases of goods		–	555
嵩明南西磷化工			
– purchases of raw materials	*33(b)(iii)*	241,663	16,321
南磷集團陸良磷化工			
– purchases of raw materials	*33(b)(iii)*	9,083	17,256
羅平磷化工			
– purchase of raw materials	*33(b)(iii)*	13,962	–
Dongguan Hamwell			
– purchase of optical products	*33(b)(xii)*	32,301	–
Rightlink			
– commission income	*33(b)(xi)*	–	(1,300)
Swank International			
– sale of optical products	*33(b)(xiii)*	(34,001)	–
Probest			
– Waiver of amounts due by Profitown Group prior to the disposal *(note 16(b))*		–	(23,198)
– Interest paid and payable *(note 16(b))*	*33(b)(xiv)*	–	12,316

(i) The sales and purchases were priced on terms agreed between the Group and the respective related parties.

(ii) Saved as disclosed in (i) above, the directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business.

(i) Guangxi Agency Agreement

On 11 May 2006, the Group and Yunphos and its subsidiaries (the "Yunphos Group") entered into an agency agreement ("Guangxi Agency Agreement"), pursuant which Yunphos Group was engaged by the Group as an agent to provide agency services for the sale of phosphoric acid in Indonesia, Thailand, Australia and the United States for a term up to 31 December 2008 ("Guangxi Agency Agreement"). Under the terms of the agreement, the agency fee payable by the Group to Yunphos Group was charged at 3% of the invoiced amount of phosphoric acid sold by Yunphos Group on behalf of the Group. The agency fee was determined with reference to an agency arrangement for the sale of phosphorus-related products between an associate of Yunphos and an independent third party under which the agency fee was charged at 3% of the invoiced amount of the products sold by the independent agent on behalf of the associate of Yunphos Group. Under the terms of agreement, the agency fee charged by Yunphos Group was not higher than the agency fee charged by the independent third parties for similar agency arrangement ranging from 3% to 4%. The directors considered that the agency fee payable under the Guangxi Agency Agreement was fair and reasonable. Further details of the Guangxi Agency Agreement were set out in the Company's circular dated 2 June 2006. The Guangxi Agency Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

The Guangxi Agency Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Guangxi Agency Agreement, the Group's agency fee received and receivable from 南磷集團進出口 amounted to HK$Nil for the year ended 31 December 2008 (2007: HK$687,000 (RMB671,000)).

(ii) Guangxi Distribution Agreement

On 11 May 2006, the Group and Yunphos Group entered into a distribution agreement ("Guangxi Distribution Agreement"), pursuant to which Yunphos Group purchased from the Group the phosphoric acid products for onward distribution to its customers for a term up to 31 December 2008 ("Guangxi Distribution Agreement"). Under the terms of the Guangxi Distribution Agreement, the price of phosphoric acid sold by the Group to Yunphos Group was not lower than the price available the price available to independent third parties for the same products sold by the Group. The invoiced amount for phosphoric acid products should be settled within 30 days from the date of bill of lading. Further details were set out in the Company's circular dated 2 June 2006. Guangxi Distribution Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

The Guangxi Distribution Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Guangxi Distribution Agreement, the Group's sales of phosphoric acid products to 南磷集團進出口 and 防城港南磷 in aggregate amounted to HK$198,478,000 (RMB179,949,000) (2007: HK$183,314,000 (RMB178,983,000)) for the year ended 31 December 2008.

(iii) Guangxi Raw Materials Purchase Agreement

On 11 May 2006, the Group and Yunphos Group entered into an agreement ("Guangxi Raw Materials Purchase Agreement"), pursuant to which the Group purchased yellow phosphorus from Yunphos Group for the production of phosphoric acid in the Group's premises in Guangxi (details refer to note 33(a)(v)) for a term up to 31 December 2008. The quantity and specification of yellow phosphorus supplied by Yunphos Group to the Group were subject to the requirements under each individual order placed by the Group to Yunphos Group from time to time. The price payable by the Group was determined after arm's length negotiation at a price level not higher than the price chargeable by independent third parties. The invoiced amount payable by the Group should be settled within 30 days upon receipt of the relevant raw materials. The Guangxi Raw Materials Purchase Agreement provided that Yunphos Group would preferentially supply the raw materials to the Group before such raw materials were supplied to other customers. Further details were set out in the Company's circular dated 2 June 2006. The Guangxi Raw Materials Purchase Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

The Guangxi Raw Materials Purchase Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Guangxi Raw Materials Purchase Agreement, the Group's purchases of yellow phosphorus from 南磷集團尋甸, 嵩明南西磷化工, 南磷集團陸良磷化工 and 羅平磷化工 in aggregate amounted to HK$264,708,000 (RMB239,997,000) (2007: HK$58,727,000 (RMB57,339,000)) for the year ended 31 December 2008.

(iv) Yunnan Leasing Agreement

On 11 May 2006, the Group and Yunphos Group entered into a leasing agreement ("Yunnan Leasing Agreement"), pursuant to which 南磷集團尋甸 leased to the Group the production factory and ancillary structures with a gross floor area of 51,793 square meters located at Jin Suo Xiang Industrial Small District, Xundian County, Kunming City, Yunnan Province, the PRC (the "Yunnan Premises"), and the machinery and equipment (the "Yunnan Machinery and Equipment") for the production of yellow phosphorus for a term up to 31 December 2008. The Yunnan Premises comprised mainly two factory premises including on phosphorus production plant with a production capacity of 22,000 tonnes per annum and one power generation plant with volume of 50,000 KW per hour of electricity per annum. The power production plant generated and supplied electricity to the phosphorus plant for the manufacture of yellow phosphorus. Under the terms of the Yunnan Leasing Agreement, the annual aggregate rental for the Yunnan Premises and the Yunnan Machinery and Equipment would be RMB20 million. The directors of the Company considered that rental payable under the Yunnan Leasing Agreement was determined after arm's length negotiation with reference to the rental consultation opinion on the Yunnan Premises and the Yunnan Machinery and Equipment given by an independent valuer, B.I. Appraisals Limited who confirmed that the annual rental was not higher than the fair rental at 30 April 2006 for the lease of the Yunnan Premises and the Yunnan Machinery and Equipment. The details of the Yunnan Leasing Agreement were set out in the Company's circular dated 2 June 2006. The Yunnan Leasing Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held at 19 June 2006.

The Yunnan Leasing Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Yunnan Leasing Agreement, the Group's rental paid and payable for Yunnan Premises and the Yunnan Machinery and Equipment to 南磷集團尋甸 amounted to HK$22,059,000 (RMB20,000,000) (2007: HK$20,484,000 (RMB20,000,000)) for the year ended 31 December 2008.

(v) Guangxi Leasing Agreement

On 11 May 2006, the Group and Yunphos Group entered into an agreement ("Guangxi Leasing Agreement") under which 防城港南磷 leases to the Group the premises which was located at Huagang Road, Yu Zhou Cheng Industrial Zone, Gangkou District, Fangchenggang City, Guangxi Zhuang Zu Autonomous Region, the PRC (the "Guangxi Premises") with a gross floor area of 6,877 square meters together with the machinery and equipment (the "Guangxi Machinery and Equipment") therein for a term up to 31 December 2008. The Guangxi Premises and the Guangxi Machinery and Equipment were leased for use by the Group at an annual aggregate rental of RMB2.5 million. The directors of the Company considered that the rental payable under the Guangxi Leasing Agreement was determined after arm's length negotiations with reference to the rental consultation opinion on the Guangxi Premises and the Guangxi Machinery and Equipment given by an independent valuer, B.I. Appraisals Limited who confirmed at 30 April 2006 that the rental payable for Guangxi Premises was not higher than the fair rental for the lease of the Guangxi Premises and the Guangxi Machinery and Equipment. Further details of the Guangxi Leasing Agreement were set out in the Company's circular dated 2 June 2006. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

The Guangxi Leasing Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Guangxi Leasing Agreement, the Group's rental paid and payable to 防城港南磷 amounted to HK$2,757,000 (RMB2,500,000) (2007: HK$2,561,000 (RMB2,500,000)) for the year ended 31 December 2008.

(vi) PVC Leasing Agreement

On 9 July 2007, the Group entered into an agreement ("PVC Leasing Agreement") with Yunphos Group in relation to the lease of the PVC premises and the machinery and equipment for a term commencing from 1 November 2007 to 31 December 2009. The PVC premises occupied a gross floor area of 103,967 square metre located at Jin Suo Industrial Small District, Xundian Hui Zu Yi Zu Autonomous County, Kunming City, Yunnan Province, the PRC. These premises comprised 58 factory buildings for the production of PVC and other chemical products and power generation facilities. The Group had an exclusive right to require Yunphos Group to renew the lease term for another three years by serving a written notice one month before the expiry of the PVC Leasing Agreement, the renewal terms should be determined by both parties with reference to the then prevailing market rental and at a term that was not less favourable than rent offered by independent third parties.

Under the terms of the PVC Leasing Agreement, the annual rental would be RMB75 million, subject to waiver adjustments, payable quarterly in four equal amounts; and the rental for the first quarter after the PVC Leasing Agreement became effective should be calculated on a prorate basis with reference to the number of days leased during that quarter and, after deducting the installment of RMB2 million paid by the Group to Yunphos Group. The rental payable under the PVC Leasing Agreement was determined after arm's length negotiation and with reference to an independent professional valuation of annual rental by B.I. Appraisals Limited of the PVC Premises and the machinery and equipment at the PVC Premises, at RMB85 million as at 30 June 2007. The directors considered that the terms under the PVC Leasing Agreement were fair and reasonable so far as the interest of the independent shareholders were concerned and were in the interests of the Company and its shareholders as a whole. The PVC Leasing Agreement was approved by the independent shareholders at the extraordinary general meeting of the Company held on 23 August 2007.

On 11 September 2008, the Group and Yunphos Group entered into a leasing termination agreement (the "PVC Leasing Termination Agreement"), pursuant to which both parties agreed to terminate the PVC Leasing Agreement with effect from 11 September 2008 and neither party was liable to make any compensation to the other party. Further details were set out in the Company's circular dated 8 October 2008.

In accordance with the PVC Leasing Agreement, the Group's rental paid and payable to Yunphos Group amounted to HK$27,574,000 (RMB25,000,000) (2007: HK$12,803,000 (RMB12,500,000)) for the year ended 31 December 2008 and was entitled to a waiver of rental payable to Yunphos Group of HK$41,361,000 (RMB37,500,000) (2007: HK$Nil).

(vii) PVC Ancillary Materials Procurement Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement (the "PVC Ancillary Material Procurement Agreement") under which the Group agreed to purchase ancillary materials for its PVC operations, for a term commencing from 23 August 2007 to 31 December 2009. These materials were used for repairing and, or maintaining the production facilities of PVC products. The quantity and specification of ancillary materials supplied by Yunphos Group and, or its associates to the Group were subject to the individual order placed by the Group from time to time. The unit price payable by the Group would be the same price payable by Yunphos Group to third parties in acquiring the same and no less favourable than the unit price offered by independent third party suppliers to the Group for the same materials of component. The purchase was settled within 30 days upon receipt of the materials or components purchased. Further details are set out in the Company's circular dated 8 August 2007. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 August 2007.

In accordance with the PVC Ancillary Materials Procurement Agreement, the Group's purchases from 南磷集團尋甸 and 昆明東磷 amounted to HK$11,118,000 (RMB10,080,000) (2007: HK$5,000,000 (RMB4,881,000)) for the year ended 31 December 2008.

(viii) Yunnan Factories Coal Supply Contract

On 9 July 2007, the Group and Yunphos Group entered into an agreement ("Yunnan Factories Coal Supply Contract") under which the Group purchased up to approximately 150,000 tonnes of coal each year from Yunphos Group and, or its associates for use at the power generation plant at the Group's yellow phosphorus production facilities at Yunnan Province, the PRC, for a term commencing from 23 August 2007 to 31 December 2008. The quantity and specification of coal supplied by Yunphos Group and, or its associates to the Group were subject to the individual orders to be placed by the Group from time to time. The unit price of coal payable by the Group to Yunphos Group and, its associates was no less favourable than the unit price offered to the Group by independent suppliers for the same type of coal. The amount payable by the Group to Yunphos Group and, or its associates should be settled within 30 days upon receipt of the coal purchased. Further details were set out in the Company's circular dated 8 August 2007. The Yunnan Factories Coal Supply Contract was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 August 2007.

The Yunnan Factories Coal Supply Contract expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Yunnan Factories Coal Supply Contract, the Group's purchases of coal from 南磷集團電化, 南磷集團尋甸 and 尋甸南鋒 in aggregate amounted to HK$10,086,000 (RMB9,144,000) (2007: HK$10,087,000 (RMB9,848,000)) for the year ended 31 December 2008.

(ix) PVC Distribution Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement ("PVC Distribution Agreement") under which the Group appointed Yunphos Group as its distributor to distribute sodium tripolyphosphate produced at the PVC Premises to customers outside the PRC, commencing from 23 August 2007 to 31 December 2009. The selling price was no less favourable than the price offered by the Group to any independent customers for the same product. Yunphos Group was entitled to mark up the prices of sodium tripolyphosphate upon distributing to its own customers with reference to the administrative, marketing and finance costs incurred by it. Settlement was made within 30 days from the date Yunphos Group received the products. Further details were set out in the Company's circular dated 8 August 2007. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held at 23 August 2007.

In accordance with the PVC Distribution Agreement, the Group's sales of sodium tripolyphosphate to 南磷集團進出口 amounted to HK$70,588,000 (RMB63,998,000) (2007: HK$11,048,000 (RMB10,787,000)) for the year ended 31 December 2008.

(x) Phosphorus Ancillary Materials Procurement Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement (the "Phosphorus Ancillary Materials Procurement Agreement") under which the Group agreed to purchase from Yunphos Group ancillary materials for repairing and, or maintaining production facilities for phosphorus products. The agreement was effective for a term commencing from 23 August 2007 to 31 December 2008. The quantity and specification of ancillary materials were supplied by Yunphos and, or its associates to the Group from time to time at the same price payable by Yunphos to third parties in acquiring the same and no less favourable than that offered to the Group by independent suppliers for the same type of materials. The purchase was settled within 30 days from the end of each month. Further details of the agreement were set out in the Company's circular dated 8 August 2007. The Phosphorus Ancillary Materials Procurement Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 August 2007.

The Phosphorus Ancillary Materials Procurement Agreement expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

In accordance with the Phosphorus Ancillary Materials Procurement Agreement, the Group's purchases of phosphorus ancillary materials from 南磷集團尋甸 and 昆明東磷 in aggregate amounted to HK$3,961,000 (RMB3,591,000) (2007: HK$3,686,000 (RMB3,599,000)) for the year ended 31 December 2008.

(xi) Rightlink Agency Agreement

On 5 July 2005, the Group and Rightlink entered into an agreement (the "Rightlink Agency Agreement"), pursuant to which the Group provided agency services to Rightlink in relation to the sales of chemical products including phosphorus and related products to Italy, Japan and Korea at an agency fee of 3% of the invoiced amount of such products sold by the Group on behalf of Rightlink with reference to the similar transactions made between Yunphos and an independent third party. The directors of the Company considered that the agency fee under this agreement was fair and reasonable.

In accordance with the Rightlink Agency Agreement, the Group received commission of HK$Nil (2007: HK$1,300,000) for the year ended 31 December 2008.

(xii) During the year ended 31 December 2008, the Group had purchases of optical products from Dongguan Hamwell of HK$32,301,000 (2007: Nil). The purchases were priced on the terms agreed between the Group and the related party.

(xiii) During the year ended 31 December 2008, the Group had sales of optical products to Swank International of HK$34,001,000 (2007: Nil). The sales were priced on terms agreed between the Group and the related party.

(xiv) Loan Restructuring Agreement

On 20 January 2005, the Company, Probest and Profitown entered into an agreement (the "Loan Restructuring Agreement"), pursuant to the terms of the Loan Restructuring Agreement, Profitown issued new promissory note in favour of Probest, in consideration of Probest waiving portion of the outstanding loan due and owing by the Company to Probest under the old promissory note. Pursuant to the terms of the Loan Restructuring Agreement, the Company executed a guarantee in favour of Probest (the "Swank Guarantee") to guarantee Profitown's obligations in respect of interest payable under the new promissory note. The Swank Guarantee was released by Probest upon the disposal of the 70% equity interest in Profitown Group in 2007.

In accordance with the Loan Restructuring Agreement, loan interest paid and payable to Probest amounted to HK$12,316,000 for the year ended 31 December 2007.

(c) Amounts due from related companies

	2008	**2007**
	HK$'000	*HK$'000*
Trade balances:		
Yunphos Group	12,686	–
Swank International	17,465	–
	30,151	–

The amounts due from related companies are unsecured, interest free and repayable on demand.

(d) Amounts due to related companies

	2008	**2007**
	HK$'000	*HK$'000*
Non-trade balances:		
Rightlink	69,681	–
Yunphos Group	373	–
Trade balances:		
Rightlink	219	17,881
Yunphos Group	7,297	21,753
Dongguan Hamwell	16,976	–
	94,546	39,634

The amounts due to related companies are unsecured, interest free and repayable on demand.

(e) Amounts due to directors

	2008	**2007**
	HK$'000	*HK$'000*
Zhou Jing	–	500
Wang An Kang	–	769
Zhao Jun	–	673
	–	1,942

The amounts due to directors are unsecured, interest-free and repayable on demand.

(f) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2008	2007
	HK$'000	*HK$'000*
Short-term employee benefits	2,610	3,013
Post-employment benefits	54	48
Equity compensation benefits	772	52
	3,436	3,113

Total remuneration is included in "staff costs" (note 8).

34. POST BALANCE SHEET DATE EVENTS

(a) On 8 January 2009, the Company entered into the subscription agreement with Gouw Hiap Kian ("Mr. Gouw"), pursuant to which the Company agreed to issue and allot and Mr. Gouw agreed to subscribe for a total of 84,880,636 ordinary shares of the Company of HK$0.01 each at the subscription price of HK$0.09425 each. The share subscription was completed on 6 February 2009. Further details are set out in the Company's announcement on 8 January 2009.

(b) On 2 March 2009, Anchorage Trading Limited ("Anchorage"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "Agreement") with an independent third party (the "Purchaser"), pursuant to which Anchorage agreed to dispose of the entire equity interest of Huahai, a direct wholly owned subsidiary of Anchorage, for an initial consideration (the "Initial Consideration") of RMB26,000,000 (equivalent to HK$29,491,000) which is subject to adjustments based on the audited net asset value of Huahai as at 31 December 2008. If the audited net asset value of Huahai is lower than RMB26 million, the consideration will be the audited net asset value. If the audited net asset value is higher than RMB30 million, the consideration will be increased by the amount equivalent to the difference between the audited net asset value and RMB30 million. If the audited net asset value is more than or equal to RMB26 million but less than or equal to RMB30 million, the consideration will be equal to the Initial Consideration. At the date of this report, the Group received a deposit of approximately HK$8,268,000 from the Purchaser and the disposal transaction has not completed. Further details are set out in the Company's circular dated 25 March 2009.

35. ULTIMATE HOLDING COMPANY

The directors regard Sinogreat Limited, a Company incorporated in the British Virgin Islands, as being the ultimate holding company.

36. COMPARATIVE FIGURES

Certain comparative figures have been restated in compliance with HKFRS 5 "Non-current Assets Held for Sales and Discontinued Operations" from the discontinued operations of the Group's PVC business during the year.

3. UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2009

The following financial information is an extract of the interim report of the Group for the six months ended 30 June 2009.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Notes	Continuing operations For the six months ended 30 June 2009 HK$'000 (unaudited)	Continuing operations 2008 HK$'000 (unaudited)	Discontinued operation For the six months ended 30 June 2009 HK$'000 (unaudited)	Discontinued operation 2008 HK$'000 (unaudited)	Total For the six months ended 30 June 2009 HK$'000 (unaudited)	Total 2008 HK$'000 (unaudited)
Turnover	(4)	40,064	321,431	–	255,178	40,064	576,609
Cost of sales		(39,189)	(285,682)	–	(243,996)	(39,189)	(529,678)
Gross profit		875	35,749	–	11,182	875	46,931
Other income		597	4,809	–	–	597	4,809
Gain on disposal of a subsidiary		8,625	–	–	–	8,625	–
Selling and distribution costs		(1,922)	(11,443)	–	(10,324)	(1,922)	(21,767)
Administrative expenses		(8,903)	(6,285)	–	(5,737)	(8,903)	(12,022)
Other operating expenses		–	(109)	–	–	–	(109)
Profit/(loss) from operations		(728)	22,721	–	(4,879)	(728)	17,842
Finance costs		(43)	(1,509)	–	–	(43)	(1,509)
Profit/(loss) before income tax	(5)	(771)	21,212	–	(4,879)	(771)	16,333
Income tax	(6)	–	(1,666)	–	(417)	–	(2,083)
Profit/(loss) for the period attributable to owners of the Company		(771)	19,546	–	(5,296)	(771)	14,250
Other comprehensive income/(loss)							
Exchange differences arising on translation of foreign operations		(44)	4,327	–	418	(44)	4,745
Other comprehensive income/(loss) for the period, net of tax		(44)	4,327	–	418	(44)	4,745
Total comprehensive income/(loss) for the period attributable to owners of the Company		(815)	23,873	–	(4,878)	(815)	18,995
Earnings/(loss) per share	(7)						
Basic		(0.02) cents	0.63 cents	–	(0.17) cents	(0.02) cents	0.46 cents
Diluted		N/A	0.63 cents	–	(0.17) cents	N/A	0.46 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2009 and 31 December 2008

	Notes	As at 30 June 2009 HK$'000 (unaudited)	As at 31 December 2008 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	(8)	81	2,441
Current assets			
Inventories		573	26,387
Trade receivables	(9)	17,378	15,248
Prepayments, deposits and other receivables		23,117	31,407
Amounts due from related companies	(15(b))	–	30,151
Tax recoverable		–	994
Cash and bank balances		82,817	84,435
		123,885	188,622
Total assets		123,966	191,063
EQUITY			
Share capital	(11)	32,097	31,249
Reserves		18,261	20,806
Total equity		50,358	52,055
LIABILITIES			
Current liabilities			
Trade payables	(10)	22,536	31,542
Accruals and other payables		5,304	12,920
Amounts due to related companies	(15(b))	45,768	94,546
		73,608	139,008
Total liabilities		73,608	139,008
Total equity and liabilities		123,966	191,063
Net current assets		50,277	49,614
Total assets less current liabilities		50,358	52,055

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009 (unaudited)

	Attributable to owners of the Company						
	Issued share capital	Share premium account	Statutory surplus reserve	Exchange fluctuation reserve	Share option reserve	Accu-mulated losses	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	31,249	723,462	7,904	13,717	764	(725,041)	52,055
Total comprehensive income for the period	–	–	–	(44)	–	(771)	(815)
Issue of shares	848	7,145	–	–	–	–	7,993
Disposal of a subsidiary	–	–	(1,982)	(6,893)	–	–	(8,875)
At 30 June 2009	32,097	730,607	5,922	6,780	764	(725,812)	50,358

For the six months ended 30 June 2008 (unaudited)

	Attributable to owners of the Company					
	Issued share capital	Share premium account	Exchange fluctuation reserve	Share option reserve	Accu-mulated losses	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	31,249	723,462	7,025	104	(639,218)	122,622
Total comprehensive income for the period	–	–	4,745	–	14,250	18,995
Recognition of equity-settled share-based payment expenses	–	–	–	8	–	8
Share option written back to retained earning	–	–	–	(112)	112	–
At 30 June 2008	31,249	723,462	11,770	–	(624,856)	141,625

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	**2008**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash used in operations	(37,463)	(6,142)
Net cash generated from/(used in) investing activities	27,939	(2,075)
Net cash generated from financing activities	7,950	–
Net decrease in cash and cash equivalents	(1,574)	(8,217)
Cash and cash equivalents at beginning of the period	84,435	30,342
Effect of foreign exchange rate changes	(44)	4,745
Cash and cash equivalents at end of the period	82,817	26,870
Analysis of balances of cash and cash equivalents		
Cash and bank balances	82,817	26,870

NOTES TO CONDENSED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2009 are unaudited but have been reviewed by the Audit Committee.

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2008 annual financial statements.

The accounting policies and method of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2008 except as stated in note 2 below.

2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting polices, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

Presentation of Financial Statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. These presentation requirements have been applied retrospectively in these condensed financial statements.

Operating Segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. HKFRS 8 results in a redesignation of the Group's reportable segments, but has had no impact on the reported results or financial position of the Group. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 3 to the condensed financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3 SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 31 December 2008.

The Group is principally engaged in the manufacture and sale of phosphorous products and trading of optical products. During the year ended 31 December 2008, the Group discontinued its business of manufacturing and sale of PVC products.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

The Group comprises the following main reportable segments:

(i) Phosphorus products: manufacture and sale of phosphoric products;

(ii) Optical trading: trading of optical products; and

(iii) PVC products: manufacture and sale of PVC products (discontinued during the year ended 31 December 2008).

An analysis of the Group's segment turnover and contribution to operating profit/loss for the period by business segment is as follows:

For the six months ended 30 June 2009

	Turnover			Operating profit/(loss)		
	Continuing operations	**Discontinued operation**	**Total**	**Continuing operations**	**Discontinued operation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment						
Phosphorus products	8,388	–	8,388	(8,417)	–	(8,417)
Optical trading	31,676	–	31,676	(84)	–	(84)
	40,064	–	40,064	(8,501)	–	(8,501)
Unallocated						7,730
Loss from operations						(771)

For the six months ended 30 June 2008

	Turnover			Operating profit/(loss)		
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment						
Phosphorus products	321,431	–	321,431	23,296	–	23,296
Optical trading	–	–	–	–	–	–
PVC products	–	255,178	255,178	–	(4,879)	(4,879)
	321,431	255,178	576,609	23,296	(4,879)	18,417
Unallocated						(575)
Profit from operations						17,842

Geographical segments

In determining the Group's geographical segments, turnovers are attributed to the segment based on the location of the customers.

An analysis of the Group's segment turnover for the period by geographical segment is as follows:

	Six months ended 30 June	
	2009	**2008**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Continuing operations		
Mainland PRC	825	214,620
East Asia	39,239	106,811
	40,064	321,431

	Six months ended 30 June	
	2009	**2008**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Discontinued operation		
Mainland PRC	–	252,200
East Asia	–	2,978
	–	255,178

4 TURNOVER

Turnover represents the invoiced value of goods sold, net of value added tax, returns and allowances.

5 PROFIT/LOSS BEFORE INCOME TAX

Profit/loss before income tax is stated after charging the following:

	Six months ended 30 June			
	2009	**2008**		
		Continuing operations	**Discontinued operation**	**Total**
	HK$'000 (unaudited)	*HK$'000* (unaudited)	*HK$'000* (unaudited)	*HK$'000* (unaudited)
Cost of inventories sold	39,189	285,682	243,996	529,678
Depreciation	160	116	–	116

6 INCOME TAX

Hong Kong profits tax has been provided in the financial statements at the rate of 16.5% on estimated assessable profits for the period. No provision for Hong Kong profits tax for the six months ended 30 June 2009 as the Group did not generate any assessable profits arising in Hong Kong during the period.

No provision for PRC enterprise income tax for the six months ended 30 June 2009 as the subsidiaries of the Group located in the PRC sustained tax loss for the period.

The amount of taxation charged to the consolidated statement of comprehensive income represents:

	Six months ended 30 June			
	2009	**2008**		
		Continuing operations	**Discontinued operation**	**Total**
	HK$'000 (unaudited)	*HK$'000* (unaudited)	*HK$'000* (unaudited)	*HK$'000* (unaudited)
Charge for the Hong Kong profits tax				
– Provision in current period	–	1,666	417	2,083

7 EARNINGS/(LOSS) PER SHARE

	Six months ended 30 June 2009	2008
For continuing and discontinued operations		
Profit/(loss) attributable to equity holders of the Company (HK$'000)	(771)	14,250
Weighted average number of ordinary shares ('000)	3,192,861	3,124,863
Basic earnings/(loss) per share (HK cents)	(0.02)	0.46
Continuing operations		
Profit/(loss) attributable to equity holders of the Company (HK$'000)	(771)	19,546
Weighted average number of ordinary shares ('000)	3,192,861	3,124,863
Basic earnings/(loss) per share (HK cents)	(0.02)	0.63
Discontinued operation		
Loss attributable to equity holders of the Company (HK$'000)	–	(5,296)
Weighted average number of ordinary shares ('000)	–	3,124,863
Basic loss per share (HK cents)	–	(0.17)

The basic earnings/(loss) per share is based on the weighted average number of shares of 3,192,861,034 (2008: 3,124,862,734) for the period.

The diluted loss per share for the six months ended 30 June 2009 was not presented as the exercise of share options would results in a decrease in loss per share.

The diluted earnings per share for the six months ended 30 June 2008 is based on 3,130,905,850 shares which is the weighted average number of shares during the period adjusted for the number of dilutive potential shares issued under the share option scheme.

8 PROPERTY, PLANT AND EQUIPMENT

	As at 30 June 2009 HK$'000 (unaudited)	As at 31 December 2008 HK$'000 (audited)
Cost		
At the beginning of the period/year	2,798	313
Exchange adjustments	–	9
Additions	5	1,176
Transferred from construction in progress	–	1,310
Disposals	–	(10)
Disposal of a subsidiary	(2,639)	–
At the end of the period/year	164	2,798
Accumulated depreciation		
At the beginning of the period/year	357	55
Exchange adjustments	–	8
Provided for the period/year	160	297
Written back on disposal	–	(3)
Written back on disposal of a subsidiary	(434)	–
At the end of the period/year	83	357
Net book value	81	2,441

9 TRADE RECEIVABLES

The normal credit period granted by the Group to customers ranges from 30 to 180 days.

The aging analysis of trade receivables, based on payment due date and net of provisions, is as follows:

	As at 30 June 2009 HK$'000 (unaudited)	As at 31 December 2008 HK$'000 (audited)
Current to 30 days	11,879	191
31 to 60 days	–	302
61 to 90 days	–	4,861
More than 90 days	5,499	9,894
	17,378	15,248

10 TRADE PAYABLES

The aging analysis of trade payables, based on payment due date, is as follows:

	As at 30 June 2009 HK$'000 (unaudited)	As at 31 December 2008 HK$'000 (audited)
Current to 30 days	13,325	4,754
31 to 60 days	–	10,320
61 to 90 days	85	5,279
More than 90 days	9,126	11,189
	22,536	31,542

11 SHARE CAPITAL

	As at 30 June 2009 HK$'000 (unaudited)	As at 31 December 2008 HK$'000 (audited)
Authorised:		
300,000,000,000 ordinary shares of HK$0.01 each	3,000,000	3,000,000
Issued and fully paid:		
3,209,743,370 (2008: 3,124,862,734) ordinary shares of HK$0.01 each	32,097	31,249

12 SHARE OPTION SCHEME

The following table shows the movement of the Company's share options during the six months ended 30 June 2009.

Employee

Date of share options granted	Outstanding at the beginning of the period	Granted during the period	Waived by share option holder during the period	Outstanding at the end of the period	Subscription price (HK$)	Exercise period
29/8/2008	12,320,000	–	–	12,320,000	0.125	29/9/2008-28/9/2013

13 OPERATING LEASE COMMITMENTS

	As at	
	30 June 2009	**31 December 2008**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Minimum lease payments paid under operating leases		
– Within one year	1,442	1,581
– In the second to the fifth year inclusive	–	639
	1,442	2,220

The Group leases certain of its office premises under the operating lease arrangements.

14 DISPOSAL OF A SUBSIDIARY

	HK$'000
	(unaudited)
Net assets disposed of:	
Property, plant and equipment	2,205
Inventories	11,548
Prepayment, deposits and other receivables	22,019
Amounts due from related companies	8,959
Bank and cash balances	1,776
Trade payables	(15,746)
Accruals and other payables	(840)
Amounts due to related companies	(179)
Net assets disposed of	29,742
Statutory surplus reserve released	(1,982)
Exchange fluctuation reserve released	(6,893)
	20,867
Gain on disposal	8,625
	29,492
Consideration satisfied by:	
Cash consideration	29,492
Net cash flow arising on disposal:	
Proceeds from disposal	29,492
Bank and cash balances disposed of	(1,776)
	27,716

The disposed subsidiary contributed a loss of HK$2.1 million to the Group from operating activities during the period.

15 RELATED PARTY TRANSACTIONS

During the period ended 30 June 2009 and 2008, the directors are of the view that the following companies are related parties to the Group:

Name of the related party	Relationship
Rightlink Trading Limited	A director, Wang An Kang (note (i)) has beneficial interest
Yunnan Phosphorus Group Co., Ltd ("Yunphos")	Wang An Kang and Zhao Jun (note (i) and (ii)) have beneficial interests
昆明東磷貿易有限公司	A subsidiary of Yunphos Group
尋甸南鋒煤業有限公司	A subsidiary of Yunphos Group
雲南南磷集團尋甸磷電有限公司	A subsidiary of Yunphos Group
雲南南磷集團電化有限公司	A subsidiary of Yunphos Group
雲南南磷集團進出口有限公司	A subsidiary of Yunphos Group
嵩明南西磷化工有限公司	A subsidiary of Yunphos Group
雲南南磷集團陸良磷化工有限公司	A subsidiary of Yunphos Group
防城港南磷磷化工有限公司	A subsidiary of Yunphos Group
羅平磷化工有限公司	A subsidiary of Yunphos Group
雲南南磷集團銷售有限公司	A subsidiary of Yunphos Group
Probest Holdings Inc ("Probest")	A major shareholder of the Company's subsidiary which is disposed in 2007
Dongguan Hamwell Glasses Co. Ltd. ("Dongguan Hamwell")	Liu Yee Nee (note (iii)) was the legal representative, ceased in April 2009
Swank International Optical Company Limited ("Swank International")	Liu Yee Nee and Louie Mei Po (note (iii) and (iv)) were the common directors, and resigned in June 2009

Notes:

(i) Mr. Wang An Kang was the Company's executive director and the key management of the Company during the period ended 30 June 2008. He has resigned as executive director of the Company on 21 July 2008 but continue to act as the position of key management of certain Group's subsidiaries.

(ii) Mr. Zhao Jun was the chairman and the executive director of the Company and the key management of the Group during the period ended 30 June 2008. He resigned as the chairman and the executive director of the Company on 26 September 2008 but continued to act as the management of certain Group's subsidiaries.

(iii) Ms. Liu Yee Nee ("Ms. Liu") has been appointed as chairman and executive director of the Company since 26 September 2008. Ms. Liu resigned as legal representative of Dongguan Hamwell on 15 December 2008 and the application of Ms. Liu's resignation as legal representative to the PRC authority was completed in April 2009 and Dongguan Hamwell was then ceased to be a related party of the Group.

(iv) Ms. Louie Mei Po has been appointed as executive director of the Company since 26 September 2008. Ms. Louie Mei Po and Ms. Liu resigned as director of Swank International on 22 June 2009 and was then ceased to be a related party of the Group.

(a) Recurring transactions

During the periods ended 30 June 2009 and 2008, the Group had the following related party transactions.

		Six months ended 30 June	
		2009	**2008**
	Note	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)
雲南南磷集團尋甸磷電有限公司			
– rental of phosphorus premises and machinery and equipment	*15(a)(iii)*	–	11,062
– purchase of PVC ancillary materials	*15(a)(vi)*	–	717
– purchases of raw materials	*15(a)(ii)*	–	–
雲南南磷集團電化有限公司			
– rental of PVC premises machinery and equipment	*15(a)(v)*	–	41,475
尋甸南鋒煤業有限公司			
– purchases of coal	*15(a)(vii)*	–	8,788
昆明東磷貿易有限公司			
– purchase of phosphorus ancillary materials	*15(a)(ix)*	–	3,648
– purchase of PVC ancillary materials	*15(a)(vi)*	–	10,023
防城港南磷磷化工有限公司			
– sales of phosphorus products	*15(a)(i)*	–	3,564
– purchase of phosphorus ancillary materials	*15(a)(ix)*	–	5
– rental of phosphorus premises, machinery and equipment	*15(a)(iv)*	–	1,383
雲南南磷集團進出口有限公司			
– sales of phosphorus products	*15(a)(i)*	–	63,161
– sales of PVC products	*15(a)(viii)*	–	74,666
嵩明南西磷化工有限公司			
– purchases of raw materials	*15(a)(ii)*	–	105,914
雲南南磷集團陸良磷化工有限公司			
– purchases of raw materials	*15(a)(ii)*	–	9,107
羅平磷化工有限公司			
– purchase of raw materials	*15(a)(ii)*	–	70,679
Dongguan Hamwell			
– purchase of optical products	*15(a)(x)*	21,519	–
Swank International			
– sale of optical products	*15(a)(xi)*	31,676	–

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business.

(i) Guangxi Distribution Agreement

On 11 May 2006, the Group and Yunphos Group entered into a distribution agreement pursuant to which Yunphos Group purchases from the Group the phosphoric acid products for onward distribution to its customers for a term up to 31 December 2008 ("Guangxi Distribution Agreement"). Under the terms of the Guangxi Distribution Agreement, the price of phosphoric acid sold by the Group to Yunphos Group are not lower than the price available the price available to independent third parties for the same products sold by the Group. The invoiced amount for phosphoric acid products shall be settled within 30 days from the date of bill of lading. Further details were set out in the Company's circular dated 2

June 2006. Guangxi Distribution Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

The Guangxi Distribution Agreement was expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

(ii) *Guangxi Raw Materials Purchase Agreement*

On 11 May 2006, the Group and Yunphos Group entered into an agreement pursuant to which the Group will purchase yellow phosphorous from Yunphos Group for the production of phosphoric acid by the Guangxi Premises for a term up to 31 December 2008. The quantity and specification of yellow phosphorous supplied by Yunphos Group to the Group are subject to the requirements under each individual order placed by the Group to Yunphos Group from time to time. The price payable by Hauhai is determined after arm's length negotiation at a price level no higher than the price chargeable by independent third parties. The invoiced amount payable by the Group shall be settled within 30 days upon receipt of the relevant raw materials. The Guangxi Raw Materials Purchase Agreement provides that Yunphos Group will preferentially supply the raw materials to the Group before such raw materials are supplied to other customers. Further details were set out in the Company's circular dated 2 June 2006. The Guangxi Raw Materials Purchase Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

The Guangxi Raw Materials Purchase Agreement was expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunplos Group.

(iii) *Yunnan Leasing Agreement*

On 11 May 2006, the Group and Yunphos Group entered into a agreement pursuant to which Yunphos Xundian leases to the Group the Yunnan Premises (the production factory and ancillary structures) with a gross floor area of approximately 51,793.22 square meters located at Jin Suo Xiang Industrial Small District, Xundian County, Kunming City, Yunnan Province, the PRC, and the Yunnan Machinery and Equipment for the production of yellow phosphorous for a term up to 31 December 2008. The Yunnan Premises comprises mainly two factory premises including on phosphorous production plant with a production capacity of 22,000 tonnes per annum and one power generation plant with volume of 50,000 kW per hour of electricity per annum. The power production plant generates and supplies electricity to the phosphorous plant for the manufacture of yellow phosphorous. Under the terms of the Yunnan Leasing Agreement, the annual aggregate rental for the Yunnan Premises and the Yunnan machinery and Equipment would be RMB20 million. The directors of the Company considered that rental payable under the Yunnan Leasing Agreement was determined after arm's length negotiation with reference to the rental consultation opinion on the Yunnan Premises and the Yunnan Machinery and Equipment given by an independent valuer, B.I. Appraisals Limited who confirmed that the annual rental was not higher than the fair rental at 30 April 2006 for the lease of the Yunnan Premises and the Yunnan Machinery and Equipment. The details of the Yunnan Leasing Agreement were set out in the Company's circular dated 2 June 2006. The Yunnan Leasing Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held at 19 June 2006.

The Yunnan Leasing Agreement was expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

(iv) Guangxi Leasing Agreement

On 11 May 2006, the Group and Yunphos Group entered into an agreement under which Yunphos Fengcheng leases to the Group the Guangxi Premises which is located at Huagang Road, Yu Zhou Cheng Industrial Zone, Gangkou District, Fangchenggang City, Guangxi Zhuang Zu Autonomous Region, the PRC with a gross floor area of approximately 6,877.06 square meters together with Guangxi Machinery and Equipment therein for a term up to 31 December 2008 ("Guangxi Leasing Agreement"). The Guangxi Premises and the Guangxi Machinery and Equipment are leased for use by the Group or members of the Group at an annual aggregate rental of RMB2.5 million. The directors of the Company considered that the rental payable under the Guangxi Leasing Agreement was determined after arm's length negotiations with reference to the rental consultation opinion on the Guangxi Premises and the Guangxi Machinery and Equipment given by an independent valuer, B.I. Appraisals Limited who confirmed at 30 April 2006 that the rental payable for Guangxi Premises was no higher than the fair rental for the lease of Guangxi Premises and the Guangxi Machinery and Equipment. Further details of the agreement were set out in the Company's circular dated 2 June 2006. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 June 2006.

The Guangxi Leasing Agreement was expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

(v) PVC Leasing Agreement

On 9 July 2007, the Group entered into an agreement with Yunphos Group in relation to the lease of the PVC Premises and the machinery and equipment on the PVC Premises for a term commencing from 1 November 2007 to 31 December 2009 ("PVC Leasing Agreement"). Yunphos Group is owned as to approximately 99.56% by Mr. Wang An Kang ("Mr. Wang"), the sole shareholder of China Time Investment Holdings Limited which has held approximately 60% of the Company's issued capital. The PVC Premises occupy a gross floor area of approximately 103,967.23 square metre located at Jin Suo Industrial Samll District, Xundian Hui Zu Yi Zu Autonomous County, Kunming City, Yunnan Province, the PRC. These premises comprise 58 factory buildings for the production of PVC and other chemical products and power generation facilities. The Group has an exclusive right to require Yunphos Group to renew the lease term for another three years by serving a written notice one month before the expiry of the PVC Leasing Agreement and the renewal terms shall be determined by both parties with reference to the then prevailing market rental and at a term that is not less favourable than rent offered by independent third parties.

Under the terms of the PVC Leasing Agreement, the annual rental will be RMB75 million, subject to waiver adjustments, payable quarterly in four equal amounts; and the rental for the first quarter after the PVC Leasing Agreement becomes effective shall be calculated on a prorate basis with reference to the number of days leased during that quarter and, after deducting the installment of RMB2 million to be paid by the Group to Yunphos Group. The rental payable under the PVC Leasing Agreement was determined after arm's length negotiation and with reference to an independent professional valuation of annual rental by B.I. Appraisals Limited of the PVC Premises and the machinery and equipment at the PVC Premises, at RMB85 million as at 30 June 2007. The directors considered that the terms under the PVC Leasing Agreement are fair and reasonable so far as the interest of the independent shareholders are concerned and are in the interests of the Company and its shareholders as a whole. The PVC Leasing Agreement was approved by the independent shareholders at the extraordinary general meeting of the Company held on 23 August 2007.

On 11 September 2008, the Group and Yunphos Group entered into a leasing termination agreement, pursuant to which both parties agreed to terminate the PVC Leasing Agreement with effect from 11 September 2008 and neither party was liable to make any compensation to the other party. Further details were set out in the Company's circular dated 8 October 2008.

(vi) *PVC Ancillary Materials Procurement Agreement*

On 9 July 2007, the Group and Yunphos Group entered into an agreement under which the Group agrees to purchase ancillary materials for its PVC operations, for a term commencing from 23 August 2007 to 31 December 2009. These materials will be used for repairing and, or maintaining the production facilities of PRC products. The quantity and specification of ancillary materials to be supplied by Yunphos Group and, or its associates to the Group will be subject to the individual order placed by the Group from time to time. The unit price payable by the Group will be the same price payable by Yunphos Group to third parties in acquiring the same and no less favourable than the unit price offered by independent suppliers to the Group for the same materials of component. The purchase will be settled within 30 days upon receipt of the materials or components purchased. Further details are set out in the Company's circular dated 8 August 2007. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 August 2007.

In accordance with the purchase PVC Ancillary Materials Procurement Agreement, there was no purchase from 雲南南磷集團尋甸磷電有限公司 and 昆明東磷貿易有限公司 for the six months period ended 30 June 2009 (2008: RMB9,711,000 (approximately HK$10,740,000)).

(vii) *Yunnan Factories Coal Supply Contract*

On 9 July 2007, the Group and Yunphos Group entered into an agreement under which the Group purchased up to approximately 150,000 tonnes of coal each year from Yunphos Group and, or its associates for use at the power generation plant at the Group's yellow phosphorous production facilities at Yunnan Province, the PRC for a term commencing from 23 August 2007 to 31 December 2008 ("Yunnan factories Coal Supply Contract"). The quantity and specification of coal to be supplied by Yunphos Group and, or its associates to the Group will be subject to the individual orders to be placed by the Group from time to time. The unit price of coal payable by the Group to Yunphos Group and, its associates will be no less favourable than the unit price offered to the Group by independent suppliers for the same type of coal. The amount payable by the Group to Yunphos Group and, or its associates shall be settled within 30 days upon receipt of the coal purchased. Further details are set out in the Company's circular dated 8 August 2007. The Yunnan Factories Coal Supply Contract was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 August 2007.

The Yunnan Factories Coal Supply Contract was expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

(viii) PVC Distribution Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement under which the Group appointed Yunphos Group as its distributor to distribute sodium tripolyphosphate produced at the PVC Premises to customers outside the PRC, commencing from 23 August 2007 to 31 December 2009. The selling price will be no less favourable than the price offered by the Group to any independent customers for the same product. Yunphos Group is entitled to mark up the prices of sodium tripolyphosphate upon distributing to its own customers with reference to the administrative, marketing and finance costs incurred by it. Settlement will be made within 30 days from the date Yunphos Group received the products. Further details are set out in the Company's circular dated 8 August 2007. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held at 23 August 2007.

In accordance with the PVC Distribution Agreement, there were no sales of sodium tripolyphosphate to 雲南南磷集團進出口有限公司 for the six months period ended 30 June 2009 (2008: RMB67,510,000 (approximately HK$74,666,000)).

(ix) Phosphorous Ancillary Materials Procurement Agreement

On 9 July 2007, the Group and Yunphos Group entered into an agreement under which the Group agrees to purchase from Yunphos Group ancillary materials for repairing and, or maintaining production facilities for phosphorous products ("Phosphorous Ancillary Materials Procurement Agreement"). The agreement will be effective for a term commencing from 23 August 2007 to 31 December 2008. The quantity and specification of ancillary materials are to be supplied by Yunphos and, or its associates to the Group from time to time at the same price payable by Yunphos to third parties in acquiring the same and no less favourable than that offered to the Group by independent suppliers for the same type of materials. The purchase will be settled within 30 days from the end of each month. Further details of the agreement are set out in the Company's circular dated 8 August 2007. The Phosphorous Ancillary Materials Procurement Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 August 2007.

The Phosphorus Ancillary Materials Procurement Agreement was expired on 31 December 2008 and no renewal agreement was entered into between the Group and Yunphos Group.

(x) From January 2009 to April 2009, the Group had purchases of optical products from Dougguan Hanwell of HK$21,519,000 (2008: Nil). The purchases were priced on terms agreed between the Group and the related party.

(xi) During the six months ended 30 June 2009, the Group had sales of optical products to Swank International of HK$31,676,000 (2008: Nil). The sales were priced on terms agreed between the Group and the related party.

(b) Balances with related companies

	As at 30 June 2009 HK$'000 (unaudited)	As at 31 December 2008 HK$'000 (audited)
Amounts due from related companies:		
Trade balances:		
Yunphos Group	–	12,686
Swank International	–	17,465
	–	30,151
Amounts due to related companies:		
Non-trade balance:		
Rightlink	45,395	69,681
Yunphos Group	373	373
Trade balances:		
Rightlink	–	219
Yunphos Group	–	7,297
Donnguan Hamwell	–	16,976
	45,768	94,546

The amounts due from/to related companies are unsecured, interest free and repayable on demand.

1. ACCOUNTANTS' REPORT ON TRIUMPH FUND A LIMITED

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 November 2009

The Directors

Yun Sky Chemical (International) Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Triumph Fund A Limited (the "Company") and its subsidiary (hereinafter collectively referred to as "Triumph Group") for the year ended 31 December 2008 and the six-month period ended 30 June 2009, and the financial information of the Company for the period from 23 June 2006 (date of incorporation) to 31 December 2006, each of the two years ended 31 December 2007 and 2008 and the six-month period ended 30 June 2009 (the "Relevant Periods") and the financial information of Triumph Group for the six-month period ended 30 June 2008 ("30 June 2008 Financial Information"), prepared on the basis set out in note 2 of Section II below, for inclusion in the circular of Yun Sky Chemical (International) Holdings Limited ("Yun Sky") dated 18 November 2009 in connection with the proposed acquisition of the 100% equity interest in the Company, by Yun Sky.

The Company was incorporated as a limited liability company in the Cayman Islands on 23 June 2006. The principal activity of the Company is investment holding.

On 31 March 2008, the Company set up a wholly-owned subsidiary in the People's Republic of China ("PRC") named Shanxi Hengchuang Industrial Co., Ltd. ("Shanxi Hengchuang"). The principal activities of Shanxi Hengchuang are development and promotion of coal-related environmentally friendly energy technology, purchase and sale of coal products, mineral products, chemical products, construction materials, selection and washing of refined coal. As at the date of this report, Shanxi Hengchuang has not commenced any business since its incorporation.

The Company and its subsidiary have adopted 31 December as financial year end date. The management accounts of the Company and its subsidiary were prepared in accordance with PRC accounting standards and financial regulations. Accordingly, no audited accounts under Hong Kong Financial Reporting Standards ("HKFRSs") are available. For the purpose of this report, the directors of the Company have prepared the financial information, including the consolidated statements of comprehensive income, changes in equity and cash flows of Triumph Group for the year ended 31 December 2008 and the six-month periods ended 30 June 2008 and 2009, the consolidated statements of financial position of Triumph Group at 31 December 2008 and 30 June 2009, the statements of comprehensive income, changes in equity and cash flows of the Company for the period from 23 June 2006 (date of incorporation) to 31 December 2006 and the year ended 31 December 2007, the statements of financial position of the Company at 31 December 2006, 2007 and 2008 and 30 June 2009, together with the notes thereto (collectively the "Financial Information"), in accordance with HKFRSs (including all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated statements of comprehensive income, changes in equity and cash flows of Triumph Group for the period from 23 June 2006 (date of incorporation) to 31 December 2006 and the year ended 31 December 2007 have not been prepared because the Company did not have any subsidiary for such financial years, and such statements of the Company for such financial years have been prepared instead. The Company's statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2008 and the six-month periods ended 30 June 2008 and 2009 have not been presented in this report because such statements of Triumph Group on consolidated basis have been presented in this report. No adjustments were made to the Financial Information in preparing this report.

Respective Responsibilities of Directors and Reporting Accountants

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

It is our responsibility to form an independent opinion on the Financial Information for the Relevant Periods and to report our opinion to you.

The 30 June 2008 Financial Information has been prepared solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. It is our responsibility to form an independent review conclusion, based on our review on the comparative financial information and to report our conclusion to you.

Procedures Performed in Respect of the Financial Information

For the purpose of this report, we have carried out an independent audit on the financial information of the Company for the period from 23 June 2006 (date of incorporation) to 31 December 2006 and the years ended 31 December 2007 and 2008 and the six-month period ended 30 June 2009 and the consolidated financial information of Triumph Group for the year ended 31 December 2008 and the six-month period ended 30 June 2009, which is prepared by the directors of the Company in accordance with HKFRSs. We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA and carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Procedures Performed in Respect of the 30 June 2008 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2008 Financial Information 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 HKICPA. A review consists principally of making enquiries of the Company's management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2008 Financial Information.

Opinion in Respect of the Financial Information of the Relevant Periods

In our opinion, the Financial Information for the Relevant Periods prepared on the basis set out in note 2 of Section II gives, for the purpose of this report, a true and fair view of the results and cash flows of the Company for the period from 23 June 2006 (date of incorporation) to 31 December 2006 and the year ended 31 December 2007, state of affairs of the Company as at 31 December 2006, 2007 and 2008, and 30 June 2009, the results and cash flows of Triumph Group for the year ended 31 December 2008 and the six-month period ended 30 June 2009 and the state of affairs of Triumph Group as at 31 December 2008 and 30 June 2009.

Review Conclusion in Respect of the 30 June 2008 Financial Information

Based on our review, nothing has come to our attention that causes us to believe that 30 June 2008 Financial Information does not give a true and fair view of the results and cash flows of Triumph Group for the six-month period ended 30 June 2008 in accordance with HKFRSs.

2. FINANCIAL INFORMATION

STATEMENTS OF COMPREHENSIVE INCOME OF THE COMPANY AND THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF TRIUMPH GROUP

The following is a summary of statements of comprehensive income of the Company and the consolidated statements of comprehensive income of Triumph Group, prepared on the basis set out in note 2 of Section II below:

		The Company		Triumph Group		
		From 23 June 2006 (date of incorporation) to 31 December 2006	Year ended 31 December 2007	Year ended 31 December 2008	Six-month period ended 30 June 2008	Six-month period ended 30 June 2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Other revenue and gain	6	–	–	36	35	–
Administrative expenses		–	–	(65)	(63)	(11)
Finance costs	7	–	–	(15,927)	(13,526)	–
TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD		–	–	(15,956)	(13,554)	(11)
Attributable to: Equity holder of the Company		–	–	(15,956)	(13,554)	(11)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY						
Basic (RMB)	11	–	–	(319.1)	(271.1)	(0.2)

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY AND THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF TRIUMPH GROUP

The following is a summary of the statements of financial position of the Company and the consolidated statements of financial position of Triumph Group, prepared on the basis set out in note 2 of Section II below:

		The Company				Triumph Group	
		31 December			30 June	31 December	30 June
		2006	2007	2008	2009	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSET							
Investment in a subsidiary	*12*	–	–	139,642	139,642	–	–
Total non-current asset		–	–	139,642	139,642	–	–
CURRENT ASSETS							
Other receivable	*13*	–	–	–	–	139,642	139,642
Due from a shareholder	*14*	389	389	389	389	389	389
Cash and cash equivalents	*15*	–	–	25	25	45	45
Total current assets		389	389	414	414	140,076	140,076
CURRENT LIABILITIES							
Other payable	*16*	–	–	139,651	139,651	139,651	139,651
Due to a related party	*14*	–	–	–	–	65	76
Total current liabilities		–	–	139,651	139,651	139,716	139,727
NET CURRENT ASSETS/(LIABILITIES)		389	389	(139,237)	(139,237)	360	349
TOTAL ASSETS LESS CURRENT LIABILITIES		389	389	405	405	360	349
Net Assets		389	389	405	405	360	349
EQUITY							
Equity attributable to equity holder of the Company							
Issued capital	*17*	389	389	389	389	389	389
Reserves		–	–	16	16	(29)	(40)
Total equity		389	389	405	405	360	349

STATEMENTS OF CHANGES IN EQUITY OF THE COMPANY AND THE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OF TRIUMPH GROUP

The movements in the statements of changes in equity of the Company and Triumph Group, prepared on the basis set out in note 2 of Section II below, are as follows:

The Company

	Issued capital *RMB'000*	**Retained profit** *RMB'000*	**Total equity** *RMB'000*
23 June 2006 (date of incorporation)	–	–	–
Issue of shares	389	–	389
Total comprehensive income for the period	–	–	–
At 31 December 2006 and at 1 January 2007	389	–	389
Total comprehensive income for the year	–	–	–
At 31 December 2007 and at 1 January 2008	389	–	389
Total comprehensive income for the year	–	16	16
At 31 December 2008 and at 1 January 2009	389	16	405
Total comprehensive income for the period	–	–	–
At 30 June 2009	389	16	405

Triumph Group

	Issued capital *RMB'000*	Capital reserve *RMB'000*	Accumulated losses *RMB'000*	Total equity *RMB'000*
At 1 January 2008	389	–	–	389
Shareholder contribution *(note)*	–	15,927	–	15,927
Total comprehensive loss for the year	–	–	(15,956)	(15,956)
At 31 December 2008 and at 1 January 2009	389	15,927	(15,956)	360
Total comprehensive loss for the period	–	–	(11)	(11)
At 30 June 2009	389	15,927	(15,967)	349
Six-month period ended 30 June 2008 (Unaudited)				
At 1 January 2008	389	–	–	389
Shareholder contribution *(note)*	–	13,526	–	13,526
Total comprehensive loss for the period	–	–	(13,554)	(13,554)
At 30 June 2008	389	13,526	(13,554)	361

Note: Shareholder contribution for the year ended 31 December 2008 and the six-month period ended 30 June 2008 represented interest expenses borne by the shareholder of the Company, which aggregated to RMB15,927,000 and RMB13,526,000 (unaudited) respectively. Such interest expenses were related to loans obtained from third parties and settled during the year ended 31 December 2008 (note 7).

STATEMENTS OF CASH FLOWS OF THE COMPANY AND THE CONSOLIDATED STATEMENTS OF CASH FLOWS OF TRIUMPH GROUP

The statements of cash flows of the Company and consolidated statements of cash flows of Triumph Group, prepared on the basis set out in note 2 of Section II below, are as follows:

		The Company		Triumph Group		
		From 23 June 2006 (date of incorporation) to 31 December 2006	Year ended 31 December 2007	Year ended 31 December 2008	Six-month period ended 30 June 2008	Six-month period ended 30 June 2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax		–	–	(15,956)	(13,554)	(11)
Adjustments for:						
Finance costs	7	–	–	15,927	13,526	–
Interest income	6	–	–	(36)	(35)	–
Net cash outflow from operating activities		–	–	(65)	(63)	(11)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		–	–	36	35	–
Increase in other receivables		–	–	(139,642)	(371,419)	–
Net cash outflow from investing activities		–	–	(139,606)	(371,384)	–
CASH FLOWS FROM FINANCING ACTIVITIES						
Interest paid		–	–	(15,927)	(13,526)	–
Shareholder contribution		–	–	15,927	13,526	–
Increase in other payables		–	–	139,651	371,428	–
Increase in due to a related party		–	–	65	63	11
Net cash inflow from financing activities		–	–	139,716	371,491	11
NET INCREASE IN CASH AND CASH EQUIVALENTS		–	–	45	44	–
Cash and cash equivalents at beginning of year/period		–	–	–	–	45
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		–	–	45	44	45
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents		–	–	45	44	45

NOTES:

1. CORPORATE INFORMATION AND THE REORGANISATION

The Company was incorporated as a exempted company with limited liability in the Cayman Islands on 23 June 2006, which is wholly-owned by Mr. Zhao Ming.

In order to rationalise the group structure of Triumph Group for the purpose of acquisition by Yun Sky, in September 2009, Shanxi Hengchuang completed the acquisition of a 99% equity interest in Shanxi Puhua Deqin Metallurgy Technology Co., Ltd. ("Shanxi Puhua") and thereafter, both Shanxi Puhua and its subsidiary (Eerduosi Hengtai Coal Company Limited) became subsidiaries of the Company.

2. BASIS OF PREPARATION

As at 30 June 2009, the Company's current liabilities exceeded its current assets by RMB139 million. Nevertheless, the directors of the Company has prepared the Financial Information on a going concern basis because an amount of RMB139 million due to a third party by the Company as at 30 June 2009 has been repaid by the Company's shareholder, Mr. Zhao Ming, on behalf of the Company in September 2009, and Mr. Zhao Ming has agreed to extend the repayment date of such consequential amount owed to him by the Company to 31 December 2010.

The Financial Information has been prepared in conformity with HKFRSs and the disclosure requirements of Hong Kong Companies Ordinance. The Financial Information has been prepared on a historical cost convention. The accounting policies set out below have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

For the purpose of the Financial Information, the Company has adopted at the beginning of the Relevant Periods, all the new and revised HKFRSs applicable to the Relevant Periods.

The Company has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in the Financial Information:

	Applicable for annual periods beginning on or after
Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters	1 January 2010
HKFRS 1 (Revised) First-time Adoption of Hong Kong Financial Reporting Standards	1 July 2009
Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions	1 January 2010
HKFRS 3 (Revised) Business Combinations	1 July 2009
HKAS 27 (Revised) Consolidated and Separate Financial Statements	1 July 2009
Amendment to HKAS 32 Classification of Rights Issues	1 February 2010
Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009
HK(IFRIC) – Int 17 Distributions of Non-cash Assets to Owners	1 July 2009

Besides, HK(IFRIC)-Int 18 Transfers of Assets from Customers requires entities to apply the interpretation prospectively to transfers of assets from customers received on or after 1 July 2009.

Apart from the above, the HKICPA has, in October 2008 and in May 2009, issued Improvements to HKFRSs which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendment to HKFRS 5 is effective for annual periods on or after 1 July 2009 and the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for the amendment to Appendix to HKAS 18 have been specified. The remaining amendments, being amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39, are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

The Company and Triumph Group are in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that these new and revised HKFRSs are unlikely to have a significant impact on the Company's and Triumph Group's results of operations and financial position.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary for the relevant accounting periods. The results of the subsidiary is consolidated from the date of incorporation. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within Triumph Group are eliminated on consolidation in full.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statements of comprehensive income to the extent of dividends received or receivable. The Company's investments in subsidiaries are stated at cost less any accumulated impairment losses.

Related parties

A party is considered to be related to the Company and Triumph Group respectively if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company and Triumph Group respectively; (ii) has an interest in the Company and Triumph Group that gives it significant influence over the Company and Triumph Group respectively; or (iii) has joint control over the Company and Triumph Group respectively;

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Company and Triumph Group or their respective parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company and Triumph Group other than legal title, are accounted for as finance leases in the Company's and Triumph Group's accounts respectively. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statements of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company and Triumph Group is the lessor, assets leased by the Company and Triumph Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statements of comprehensive income on the straight-line basis over the lease terms in the respective accounts of the Company and Triumph Group. Where the Company and Triumph Group is the lessee, rentals payable under the operating leases are charged to the statements of comprehensive income on the straight-line basis over the lease terms in the respective accounts of the Company and Triumph Group.

Investments and other financial assets

The Company's and Triumph Group's financial assets include only loans and receivables, which are initially recognised and measured at fair value. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs. The Company and Triumph Group determines the classification of their respective financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of the reporting period.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company and Triumph Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. 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 costs. Gains and losses are recognised in the statements of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Company and Triumph Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

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 the impairment loss is recognised in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect of the debtor) that the Company and Triumph Group will not be able to collect all of the respective amounts due under the original terms of an invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised by the Company and Triumph Group respectively where:

- the respective rights to receive cash flows from the asset have expired;

- the Company and Triumph Group retains the respective rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company and Triumph Group has transferred their respective rights to receive cash flows from the asset and either (a) has respectively transferred substantially all the risks and rewards of the asset, or (b) has respectively neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the respective control of the asset.

Where the Company and Triumph Group has transferred their respective rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised in the accounts of the Company and Triumph Group to the extent of the Company's and Triumph Group's respective continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company and Triumph Group could be required to repay respectively.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's and Triumph Group's respective continuing involvement is the amount of the transferred asset that the Company and Triumph Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Company's and Triumph Group's respective continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans)

Financial liabilities including other payable and due to a related party are initially stated at fair values less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance Costs" in the statements of comprehensive income.

Gains and losses are recognised in the statements of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statements of comprehensive income.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's and Triumph Group's cash management respectively.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Provisions

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 a future outflow of resources 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 balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance Costs" in the statements of comprehensive income.

Revenue recognition

Revenue is recognised in the accounts of the Company and Triumph Group when it is probable that the economic benefits will flow to the Company and Triumph Group respectively and when the respective revenue can be measured reliably, on the following bases:

(i) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statements of comprehensive income or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

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

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in Triumph Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statements of comprehensive income. 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 was determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying Triumph Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Impairment of assets

Triumph Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the receivables and impairment loss in the period in which such estimate has been changed. The net carrying amounts of other receivables in the consolidated statements of financial position of Triumph Group at 31 December 2008 and 30 June 2009 were RMB139,642,000 and RMB139,642,000, respectively.

5. SEGMENT INFORMATION

Triumph Group has not commenced any business since its incorporation, and no current and non-current assets and liabilities of Triumph Group are located outside Mainland China, accordingly, no reportable segment information is presented in accordance with HKFRS 8 Operating Segments.

6. OTHER REVENUE AND GAIN

	The Company		Triumph Group		
	From 23 June 2006 (date of incorporation) to 31 December 2006	Year ended 31 December 2007	Year ended 31 December 2008	Six-month period ended 30 June 2008	Six-month period ended 30 June 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Other revenue and gain					
Interest income	–	–	36	35	–

7. FINANCE COSTS

	The Company		Triumph Group		
	From 23 June 2006 (date of incorporation) to 31 December 2006	Year ended 31 December 2007	Year ended 31 December 2008	Six-month period ended 30 June 2008	Six-month period ended 30 June 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest on other loans wholly repayable within five years	–	–	15,927	13,526	–

Such interest expenses were borne by the Company's shareholder, and arose from loans obtained from third parties and repaid in 2008 (note 20).

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

No remuneration has been paid for the Relevant periods and the six-month period ended 30 June 2008. The Company and Triumph Group did not have any non-director employee during the Relevant Periods and the six-month period ended 30 June 2008, and hence no employee remuneration has been incurred for such periods.

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

The consolidated comprehensive income attributable to equity holder of the Company for the year ended 31 December 2008, and the six-month periods ended 30 June 2008 and 2009 included comprehensive income of RMB16,000, RMB16,000 (unaudited) and nil respectively, which have been dealt with in the financial statements of the Company.

10. INCOME TAX EXPENSES

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Under the relevant PRC Corporate Income Tax Laws and regulations, the statutory enterprise income tax rate of 25% was applicable to Shanxi Hengchuang for the year ended 31 December 2008, and the six-month periods ended 30 June 2008 and 2009.

No income tax has been incurred during the Relevant Periods and the six-month period ended 30 June 2008 because the Company and Triumph Group did not have any assessable income during such periods.

A reconciliation of tax expenses applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and its subsidiary are domiciled to tax expenses at the effective tax rates, and a reconciliation of the statutory rates to the effective tax rates, are as follows:

	The Company				Triumph Group					
	From 23 June 2006 (date of incorporation) to 31 December 2006		Year ended 31 December 2007		Year ended 31 December 2008		Six-month period ended 30 June 2008		2009	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (Unaudited)	%	*RMB'000*	%
Loss before tax	–		–		(15,956)		(13,554)		(11)	
Income tax at the statutory Income tax rate	–	–	–	–	(3,989)	25	(3,389)	25	(3)	25
Tax losses not recognised	–	–	–	–	3,989	(25)	3,389	(25)	3	(25)
Tax charged at effective rate	–	–	–	–	–	–	–	–	–	–

As at 31 December 2008 and 30 June 2009, deferred tax assets have not been recognised by Triumph Group in respect of unused tax losses amounting to RMB15,956,000 and RMB15,967,000 respectively. Deferred tax assets have not been recognised for such tax losses as it is not considered probable that taxable profit will be available against which such tax losses can be utilised.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Company did not have any unreognised deferred tax assets.

11. LOSS PER SHARE

The calculation of basic loss per share of Triumph Group for the Relevant Periods and six-month period ended 30 June 2008 is based on the total comprehensive loss for the year/period attributable to equity holder of the Company, and the weighted average number of shares of the Company for the Relevant Periods and the six-month period ended 30 June 2008.

There were no dilutive potential ordinary shares during the Relevant Periods and six-month period ended 30 June 2008, therefore, diluted earnings/(loss) per share are not presented.

12. INVESTMENT IN A SUBSIDIARY

	The Company			
	31 December			30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	–	–	139,642	139,642

Particulars of the subsidiary are as follows:

Name	Place and date of incorporation and operation	Registered/ paid-up capital	Percentage of equity interest directly attributable to the Company	Principal activities
Shanxi Hengchuang	PRC 31 March 2008	US$75,000,000/ US$20,000,000	100%	Manufacture and sale of coal products

13. **OTHER RECEIVABLE**

	Triumph Group	
	31 December 2008	30 June 2009
	RMB'000	*RMB'000*
Receivable from Shanxi Puhua	139,642	139,642

Receivable from Shanxi Puhua is unsecured, interest-free and has no fixed terms of repayment.

14. **DUE FROM A SHAREHOLDERS/DUE TO A RELATED PARTY**

The amount due from a shareholder recorded in the Company's and Triumph Group's statements of financial position represented an amount due from Mr. Zhao Ming, which is unsecured, interest-free and has no fixed term of repayment.

The amount due to a related party recorded in Triumph Group's statements of financial position at 31 December 2008 and 30 June 2009 is unsecured, interest-free and has no fixed term of repayment.

15. **CASH AND CASH EQUIVALENTS**

	The Company				Triumph Group	
	31 December			30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	–	–	25	25	45	45

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company and Triumph Group respectively, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

16. **OTHER PAYABLE**

The balance of other payable recorded in the Company's and Triumph Group's statements of financial position at 31 December 2008 and 30 June 2009 represented loan from a third party, which is unsecured, interest-free and has no fixed term of repayment.

17. **SHARE CAPITAL**

The authorised share capital and issued share capital of the Company is US$50,000, which is divided into 50,000 shares of US$1.00 each.

18. **CONTINGENT LIABILITIES**

At the end of each of the Relevant Periods, the Company and Triumph Group did not have any significant contingent liabilities.

19. COMMITMENTS

Capital commitments are as follows:

	The Company				Triumph Group	
	31 December			30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contractual commitment to acquire a 99% equity interest in Shanxi Puhua *(note)*	–	–	–	–	140,000	140,000

Note: In May 2008, Triumph Group agreed to acquire the above equity interests in Shanxi Puhua for a consideration of cash payment of RMB26.1 million by Triumph Group and assumption of Shanxi Puhua's liabilities of RMB113.9 million by Triumph Group, totalling RMB140,000,000. Subsequently, such an acquisition has not been duly completed and was superseded by agreements dated 23 September 2009 pursuant to which Triumph Group agreed to acquire the above equity interests for a cash consideration of RMB148,500,000. The acquisition has been completed in September 2009.

The Company has no capital commitment at the end of each of the Relevant Periods.

20. RELATED PARTY TRANSACTIONS

Details of the balance with related party and interest expenses borne by a shareholder of the Company are disclosed in note 14 and note 7 respectively.

21. FINANCIAL INSTRUMENTS BY CATEGORY

The Company's and Triumph Group's financial assets included only loans and receivables, and details of carrying amounts are as follows:

	The Company				Triumph Group	
	31 December			30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other receivable	–	–	–	–	139,642	139,642
Due from a shareholder	389	389	389	389	389	389
Cash and cash equivalents	–	–	25	25	45	45
	389	389	414	414	140,076	140,076

The Company's and Triumph Group's financial liabilities at amortised cost are as follows:

	The Company				Triumph Group	
	31 December			30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payable	–	–	139,651	139,651	139,651	139,651
Due to a related party	–	–	–	–	65	76
	–	–	139,651	139,651	139,716	139,727

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's and Triumph Group's principal financial instruments comprise cash and bank balances. The main purpose of these financial instruments is to raise finance for the Company's and Triumph Group's future operations. The Company and Triumph Group have various other financial assets and liabilities such as other receivable and other payable, which arise directly from loans/advances.

The main risks arising from the Company's and Triumph Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

Interest rate risk

The Company's and Triumph Group's exposure to the risk of changes in market interest rates relates primarily to the Company's and Triumph Group's cash and bank balances with floating interest rate.

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in interest rate, with all other variables held constant, of the Company's and Triumph Group's profit before tax and equity respectively.

	Change in basis interest rate	**Increase in profit/(loss) before tax**	**Increase in equity**
	%	*RMB'000*	*RMB'000*
The Company			
Year ended 31 December 2007	10	–	–
Year ended 31 December 2006	10	–	–
Year ended 31 December 2007	20	–	–
Year ended 31 December 2006	20	–	–
Triumph Group			
Six-month period ended 30 June 2009	10	–	–
Year ended 31 December 2008	10	4	4
Six-month period ended 30 June 2008	10	4	4
Six-month period ended 30 June 2009	20	–	–
Year ended 31 December 2008	20	8	8
Six-month period ended 30 June 2008	20	8	8

Liquidity risk

The Company's and Triumph Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade finance facilities. The Company's and Triumph Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Company's and Triumph Group's operations.

The Company's and Triumph Group's cash and bank balances are placed with reputable financial institutions.

The maturity profile of the Company's and Triumph Groups' financial liabilities at the end of each reporting period, based on the contractual undiscounted payments, were as follows:

The Company

The Company had no financial liabilities as at 31 December 2006 and 2007, the financial liabilities as at 31 December 2008 and 30 June 2009, based on the contractual undiscounted payments, were as follows:

	As at 31 December 2008 and 30 June 2009			
	On demand	**Within 1 year**	**1 to 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payable	139,651	–	–	139,651

Triumph Group

	As at 31 December 2008			
	On demand	**Within 1 year**	**1 to 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payable	139,651	–	–	139,651
Due to a related party	65	–	–	65
	139,716	–	–	139,716

	As at 30 June 2009			
	On demand	**Within 1 year**	**1 to 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payable	139,651	–	–	139,651
Due to a related party	76	–	–	76
	139,727	–	–	139,727

Credit risk

The credit risk of the Company's and Triumph Group's financial assets, which comprise cash and cash equivalents, other receivable, and an amount due from a shareholder, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Company and Triumph Group only provide loans to recognised and creditworthy parties, there is no requirement for collateral.

At the end of each of the Relevant Periods, there was no significant concentration of credit risk, except for Triumph Group's loan receivable from Shanxi Puhua of RMB139,642,000 and RMB139,642,000 as at 31 December 2008 and 30 June 2009 respectively.

Foreign currency risk

Triumph Group's business is located in Mainland China and most of the transactions are conducted in RMB. Most of Triumph Group's assets and liabilities are denominated in RMB. Fluctuations of the exchange rates of RMB against foreign currencies did not have significant effects on Triumph Group's profit or loss and equity during the Relevant Periods.

Capital management

The primary objective of the Company's and Triumph Group's capital management is to safeguard the Company's and Triumph 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 Company and Triumph Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Company and Triumph Group monitor capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt is calculated as the sum of other payable and amount due to a related party less cash and bank balances. Equity represents equity attributable to the equity holder of the Company and Triumph Group.

The gearing ratios for the Company and Triumph Group as at the end of each of the Relevant Periods were as follow:

	The Company				**Triumph Group**	
		31 December		**30 June**	**31 December**	**30 June**
	2006	**2007**	**2008**	**2009**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payable	–	–	139,651	139,651	139,651	139,651
Due to a related party	–	–	–	–	65	76
Less: Cash and bank balances	–	–	(25)	(25)	(45)	(45)
Net debt	–	–	139,626	139,626	139,671	139,682
Equity	389	389	405	405	360	349
Equity and net debt	389	389	140,031	140,031	140,031	140,031
Gearing ratio	–	–	99.7%	99.7%	99.7%	99.8%

23. POST BALANCE SHEET EVENT

In September 2009, Shanxi Hengchuang, the subsidiary of the Company, completed the acquisition of a 99% equity interest in Shanxi Puhua, for a consideration of RMB148,500,000, thereafter, both Shanxi Puhua and its subsidiary (Eerduosi Hengtai Coal Company Limited) became subsidiaries of the Company.

24. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company nor Triumph Group in respect of any period subsequent to 30 June 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

2. ACCOUNTANTS' REPORT ON SHANXI PUHUA DEQIN METALLURGY TECHNOLOGY CO., LTD.

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 November 2009

The Directors
Yun Sky Chemical (International) Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Shanxi Puhua Deqin Metallurgy Technology Co., Ltd. (the "Company") and its subsidiary (hereinafter collectively referred to as "Shanxi Puhua Group") for the year ended 31 December 2008 and the six-month period ended 30 June 2009, and the financial information of the Company for each of the three years ended 31 December 2006, 2007 and 2008 and the six-month period ended 30 June 2009 (the "Relevant Periods") and the financial information of the Company for the six-month period ended 30 June 2008 ("30 June 2008 Financial Information"), prepared on the basis set out in note 2 of Section II below, for inclusion in the circular of Yun Sky Chemical (International) Holdings Limited ("Yun Sky") dated 18 November 2009 in connection with the proposed acquisition of the 100% equity interest in Triumph Fund A Limited ("Triumph"), the ultimate holding company of the Company, by Yun Sky.

The Company was incorporated as a limited liability company in the People's Republic of China (the "PRC") on 19 June 2003. The principal activities of the Company are production of iron, steel, refractory materials, coal products, ferroalloy and pig iron. As at the date of this report, the Company has not commenced any operation since its incorporation.

As at the date of this report, the Company holds a 95% equity interest in Eerduosi Hengtai Coal Company Limited ("Hengtai"). Hengtai was established in the PRC on 3 June 2005 with principal activities of mining and the sale of coal. As at the date of this report, the registered and paid-up capital of Hengtai is RMB180,000,000.

The Company and its subsidiary have adopted 31 December as their financial year end date. The management accounts of the Company and its subsidiary were prepared in accordance with PRC accounting standards and financial regulations. Accordingly, no audited accounts under Hong Kong Financial Reporting Standards ("HKFRSs") are available. For the purpose of this report, the directors of the Company have prepared the financial information of the Company, including statements of financial position of the Company as at the end of each of the Relevant Periods and the statements of comprehensive income, changes in equity and cash flows of the Company for the years ended 31 December 2006 and 2007, and the six-month period ended 30 June 2008 plus the consolidated statements of financial position of Shanxi Puhua Group as at 31 December 2008 and 30 June 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows of Shanxi Puhua Group for the year ended 31 December 2008 and the six-month period ended 30 June 2009, together with the notes thereto (collectively the "Financial Information"), in accordance with HKFRSs (including all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated statements of comprehensive income, changes in equity and cash flows of Shanxi Puhua Group for the year ended 31 December 2006 and 2007 and the six-month period ended 30 June 2008 have not been prepared because the Company did not have any subsidiary for such financial years/period, and such statements of the Company for such financial years/period have been prepared instead. The Company's statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2008 and the six-month period ended 30 June 2009 have not been presented in this report because such statements of Shanxi Puhua Group on consolidated basis have been presented in this report. No adjustments were made to the Financial Information in preparing this report.

Respective Responsibilities of Directors and Reporting Accountants

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

It is our responsibility to form an independent opinion on the Financial Information for the Relevant Periods and to report our opinion to you.

The 30 June 2008 Financial Information has been prepared solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. It is our responsibility to form an independent review conclusion, based on our review on the comparative financial information and to report our conclusion to you.

Procedures Performed in Respect of the Financial Information

For the purpose of this report, we have carried out an independent audit on the financial information of the Company for the years ended 31 December 2006, 2007 and 2008 and the six-month period ended 30 June 2009 and the consolidated financial information of Shanxi Puhua Group for the year ended 31 December 2008 and the six-month period ended 30 June 2009, which is prepared by the directors of the Company in accordance with HKFRSs. We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA and carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Procedures Performed in Respect of the 30 June 2008 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2008 Financial Information 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 HKICPA. A review consists principally of making enquiries of the Company's management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2008 Financial Information.

Opinion in Respect of the Financial Information of the Relevant Periods

In our opinion, the Financial Information for the Relevant Periods prepared on the basis set out in note 2 of Section II gives, for the purpose of this report, a true and fair view of the results and cash flows of the Company for the years ended 31 December 2006 and 2007, the state of affairs of the Company as at 31 December 2006, 2007 and 2008, and 30 June 2009, the results and cash flows of Shanxi Puhua Group for the year ended 31 December 2008 and the six-month period ended 30 June 2009 and the state of affairs of Shanxi Puhua Group as at 31 December 2008 and 30 June 2009.

Review Conclusion in Respect of the 30 June 2008 Financial Information

Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information does not give a true and fair view of the results and cash flows of the Company for the six-month period ended 30 June 2008 in accordance with HKFRSs.

I. FINANCIAL INFORMATION

STATEMENTS OF COMPREHENSIVE INCOME OF THE COMPANY AND THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF SHANXI PUHUA GROUP

The following is a summary of statements of comprehensive income of the Company and the consolidated statements of comprehensive income of Shanxi Puhua Group, prepared on the basis set out in note 2 of Section II below:

		The Company			Shanxi Puhua Group	
		Year ended 31 December		Six-month period ended 30 June	Year ended 31 December	Six-month period ended 30 June
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*
REVENUE	6	–	–	–	–	74,860
Cost of sales		–	–	–	–	(31,238)
Gross profit		–	–	–	–	43,622
Excess of the acquirer's interest in the fair value of acquiree's assets and liabilities over the cost of a business combination	26	–	–	–	1,459,023	–
Other revenue and gains	6	–	–	2	1,489	1,054
Selling and distribution expenses		–	–	–	–	(9,111)
Administrative expenses		–	(398)	(1,430)	(5,971)	(10,532)
Reversal of impairment/ (impairment)	7	–	–	–	(1,397,925)	53,269
Finance costs	8	–	(2,778)	(46,632)	(56,112)	(4,929)
Profit/(loss) before tax	9	–	(3,176)	(48,060)	504	73,373
Tax	10	–	–	–	349,928	(18,318)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		–	(3,176)	(48,060)	350,432	55,055
Attributable to:						
Equity holders of the Company		–	(3,176)	(48,060)	403,220	52,314
Minority interests		–	–	–	(52,788)	2,741
		–	(3,176)	(48,060)	350,432	55,055

Information on earnings/(loss) per share is not presented as such information is not meaningful given the purpose of this report.

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY AND THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SHANXI PUHUA GROUP

The following is a summary of the statements of financial position of the Company and the consolidated statements of financial position of Shanxi Puhua Group, prepared on the basis set out in note 2 of Section II below:

		The Company				Shanxi Puhua Group	
		31 December			30 June	31 December	30 June
		2006	2007	2008	2009	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS							
Property, plant and equipment	*13*	–	–	5	4	192,800	280,608
Intangible assets	*14*	–	–	–	–	1,477,000	1,532,968
Prepayments for investment/fixed assets		–	100,000	–	–	389,182	636,218
Investment in a subsidiary	*16*	–	–	665,000	665,000	–	–
Total non-current assets		–	100,000	665,005	665,004	2,058,982	2,449,794
CURRENT ASSETS							
Inventories	*17*	–	–	–	–	18	4,835
Trade receivables	*18*	–	–	–	–	1,025	76,080
Prepayments, deposits and other receivables	*19*	49,975	53,287	57,716	152,470	99,555	210,493
Due from related parties	*20*	–	–	174,517	189,828	35,000	35,000
Pledged deposits	*21*	–	–	45,000	140,000	75,026	170,000
Cash and cash equivalents	*21*	6	1	195	27	135,336	71,637
Total current assets		49,981	53,288	277,428	482,325	345,960	568,045
CURRENT LIABILITIES							
Bills payable	*22*	–	–	45,000	140,000	105,000	200,000
Other payables and accruals	*23*	1	106,484	721,585	831,242	749,246	943,770
Interest-bearing bank borrowings	*24*	–	–	–	–	20,000	20,000
Tax payable		–	–	–	–	–	315
Due to related parties	*20*	–	–	3,211	3,211	3,301	3,301
Total current liabilities		1	106,484	769,796	974,453	877,547	1,167,386
NET CURRENT ASSETS/(LIABILITIES)		49,980	(53,196)	(492,368)	(492,128)	(531,587)	(599,341)
TOTAL ASSETS LESS CURRENT LIABILITIES		49,980	46,804	172,637	172,876	1,527,395	1,850,453

		The Company				Shanxi Puhua Group	
		31 December			30 June	31 December	30 June
		2006	2007	2008	2009	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES							
Deferred tax liabilities	*15*	–	–	–	–	339,087	357,090
Interest-bearing bank borrowings	*24*	–	–	–	–	500,000	750,000
Other non-current liabilities		–	–	–	–	624	624
Total non-current liabilities		–	–	–	–	839,711	1,107,714
Net Assets		49,980	46,804	172,637	172,876	687,684	742,739
EQUITY							
Equity attributable to equity holders of the Company							
Issued capital	*25*	50,000	50,000	150,000	150,000	150,000	150,000
Reserves		(20)	(3,196)	22,637	22,876	478,681	530,995
		49,980	46,804	172,637	172,876	628,681	680,995
Minority interests		–	–	–	–	59,003	61,744
Total equity		49,980	46,804	172,637	172,876	687,684	742,739

STATEMENTS OF CHANGES IN EQUITY OF THE COMPANY AND THE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OF SHANXI PUHUA GROUP

The movements in the statements of changes in equity of the Company for each of the Relevant Periods and the six-month period ended 30 June 2008, prepared on the basis set out in note 2 of Section II below:

The Company

	Issued capital	Capital reserve	Retained profit/ (accumulated losses)	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	50,000	–	(20)	49,980
Total comprehensive income for the year	–	–	–	–
At 31 December 2006 and at 1 January 2007	50,000	–*	(20)*	49,980
Total comprehensive loss for the year	–	–	(3,176)	(3,176)
At 31 December 2007 and at 1 January 2008	50,000	–*	(3,196)*	46,804
Issuance of capital	100,000	–	–	100,000
Shareholder contribution	–	78,657	–	78,657
Total comprehensive loss for the year	–	–	(52,824)	(52,824)
At 31 December 2008 and at 1 January 2009	150,000	78,657*	(56,020)*	172,637
Total comprehensive income for the period	–	–	239	239
At 30 June 2009	150,000	78,657*	(55,781)*	172,876
Six-month period ended 30 June 2008 (Unaudited)				
At 31 December 2007 and at 1 January 2008	50,000	–	(3,196)	46,804
Total comprehensive loss for the period	–	–	(48,060)	(48,060)
At 30 June 2008	50,000	–	(51,256)	(1,256)

* *These reserve accounts comprise the negative reserves of RMB20,000 and RMB3,196,000 and reserves of RMB22,637,000 and RMB22,876,000 in the statements of financial position as at 31 December 2006, 2007, 2008 and 30 June 2009, respectively.*

Shanxi Puhua Group

	Attributable to equity holders of the Company					
	Issued capital	Capital reserve	Retained profit/ (accumulated losses)	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	50,000	–	(3,196)	46,804	–	46,804
Issuance of shares	100,000	–	–	100,000	–	100,000
Shareholder contribution	–	78,657	–	78,657	–	78,657
Total comprehensive income for the year	–	–	403,220	403,220	(52,788)	350,432
Acquisition of a subsidiary *(note 26)*	–	–	–	–	111,791	111,791
At 31 December 2008 and at 1 January 2009	150,000	78,657@	400,024@	628,681	59,003	687,684
Total comprehensive income for the period	–	–	52,314	52,314	2,741	55,055
At 30 June 2009	150,000	78,657@	452,338@	680,995	61,744	742,739

@ *These reserve accounts comprise the consolidated reserves of RMB478,681,000 and RMB530,995,000 in the consolidated statements of financial position as at 31 December 2008 and 30 June 2009, respectively.*

STATEMENTS OF CASH FLOWS OF THE COMPANY AND THE CONSOLIDATED STATEMENTS OF CASH FLOWS OF SHANXI PUHUA GROUP

The statements of cash flows of the Company and consolidated statements of cash flows of Shanxi Puhua Group, prepared on the basis set out in note 2 of Section II below, are as follows:

		The Company			Shanxi Puhua Group	
		Year ended 31 December		Six-month period ended 30 June	Year ended 31 December	Six-month period ended 30 June
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		–	(3,176)	(48,060)	504	73,373
Adjustments for:						
Finance costs	8	–	2,778	46,632	56,112	4,929
Interest income	6	–	–	(2)	(1,223)	(1,037)
Excess of the acquirer's interest in the fair value of acquiree's assets and liabilities over the cost of a business combination	26	–	–	–	(1,459,023)	–
Depreciation	9	–	–	–	831	7,074
Gain on disposal of items of property, plant and equipment	6	–	–	–	(207)	–
Amortisation of intangible assets	9	–	–	–	–	8,269
Impairment/(reversal of impairment)	7	–	–	–	1,397,925	(53,269)
		–	(398)	(1,430)	(5,081)	39,339
Decrease/(increase) in inventories		–	–	–	4	(4,817)
Decrease/(increase) in trade receivables		–	–	–	474	(75,055)
Increase in prepayments, deposits and other receivables		–	–	–	(2,475)	(8,684)
Decrease in trade payables		–	–	–	(461)	–
Increase in other payables and accruals		–	–	–	9,819	13,838
Net cash inflow/(outflow) from operating activities		–	(398)	(1,430)	2,280	(35,379)

		The Company			Shanxi Puhua Group	
		Year ended 31 December		Six-month period ended 30 June	Year ended 31 December	Six-month period ended 30 June
		2006	**2007**	**2008**	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)		
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		–	–	2	1,223	1,037
Purchases of items of property, plant and equipment		–	–	(5)	(142,326)	(82,672)
Proceeds from disposal of items of property, plant and equipment		–	–	–	207	–
Purchase of intangible assets		–	–	–	–	(10,968)
Acquisition of a subsidiary	*26*	–	–	–	(562,093)	–
Increase in prepayments for investment/fixed assets		–	(100,000)	(565,000)	(142,049)	(247,036)
Increase in prepayments, deposits and other receivables		–	(3,312)	(245,565)	(106,379)	(101,676)
Increase in pledged deposits		–	–	(139,642)	(75,026)	(94,974)
Increase in bills payable		–	–	139,642	105,000	95,000
Net cash outflow from investing activities		–	(103,312)	(810,568)	(921,443)	(441,289)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans		–	–	–	520,000	250,000
Increase in issued capital		–	–	–	100,000	–
Shareholder contribution		–	–	–	78,657	–
Interest paid		–	–	–	(2,732)	(4,674)
Decrease in amounts due to related parties		–	–	3,211	3,301	–
Increase in other payables and accruals		–	103,705	808,891	355,272	167,643
Net cash inflow from financing activities		–	103,705	812,102	1,054,498	412,969
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		–	(5)	104	135,335	(63,699)
Cash and cash equivalents at beginning of year/period		6	6	1	1	135,336
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		6	1	105	135,336	71,637
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents		6	1	105	135,336	71,637

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND THE REORGANISATION

The Company was incorporated as a limited liability company in the PRC on 19 June 2003. Since then, Mr. Xue Zhendong's equity interest in the Company is 90%, and Mr. Zhang Wei's equity interest in the Company is 10%.

In September 2009, Shanxi Hengchuang Industrial Co., Ltd. ("Shanxi Hengchuang"), a subsidiary of Triumph, had completed the acquisition of a 99% equity interest in the Company and thereafter, both the Company and its subsidiaries became subsidiaries of Shanxi Hengchuang and Triumph became the ultimate holding company of the Company. Triumph is wholly-owned by Mr. Zhao Ming.

2. BASIS OF PREPARATION AND CONSOLIDATION

As at 30 June 2009, the Company's and Shanxi Puhua Group's current liabilities exceeded their current assets by RMB492 million and RMB599 million respectively. Nevertheless, the directors of the Company have prepared the Financial Information on the going concern basis because:

(i) the Company's certain current liabilities as at 30 September 2009 has been transferred to Mr. Zhao Ming in October 2009, and Mr. Zhao Ming has agreed that the repayment date of such liabilities of RMB431 million to him to be on 31 December 2010.

(ii) Mr. Zhao Ming became the ultimate shareholder of the Company in September 2009 and he has waived the repayment of an amount due to him by the Company of RMB54 million as at 30 June 2009.

(iii) Shanxi Hengchuang has agreed to extend the repayment date of the balance of RMB140 million due to it by the Company as at 30 June 2009 to 31 December 2010.

(iv) a related company of Mr. Zhao Ming has agreed to extend the repayment date of the balance of RMB12 million due to it by Hengtai as at 30 September 2009 to 31 December 2010.

The Financial Information has been prepared in conformity with HKFRSs and the disclosure requirements of Hong Kong Companies Ordinance. The Financial Information has been prepared on a historical cost convention. The accounting policies set out below have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

As further explained in notes 16 and 26, on 29 July 2008, the Company acquired a 95% equity interest in Hengtai from a third party. On the same day, the Company became the holding company of Hengtai and Shanxi Puhua Group was established. Accordingly, consolidated financial statements were prepared for Shanxi Puhua Group since the date of acquisition.

The Financial Information included the consolidated financial statements of Shanxi Puhua Group for the year ended 31 December 2008 and the six-month period ended 30 June 2009, which included the financial statements of the Company and its subsidiary for such periods. The results of the subsidiary are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within Shanxi Puhua Group are eliminated on consolidation in full.

The acquisition of a subsidiary during the year ended 31 December 2008 had been accounted for using the purchase method of accounting. This method involved allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition was measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by Shanxi Puhua Group in the results and net assets of the Company's subsidiary.

For the purpose of the Financial Information, the Company and Shanxi Puhua Group has adopted at the beginning of the Relevant Periods, all the new and revised HKFRSs applicable to the Relevant Periods.

The Company and Shanxi Puhua Group has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in the Financial Information:

	Applicable for annual periods beginning on or after
Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters	1 January 2010
HKFRS 1 (Revised) First-time Adoption of Hong Kong Financial Reporting Standards	1 July 2009
Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions	1 January 2010
HKFRS 3 (Revised) Business Combinations	1 July 2009
HKAS 27 (Revised) Consolidated and Separate Financial Statements	1 July 2009
Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009
Amendment to HKAS 32 Classification of Rights Issues	1 February 2010
HK(IFRIC) – Int 17 Distributions of Non-cash Assets to Owners	1 July 2009

Besides, HK(IFRIC)-Int 18 Transfers of Assets from Customers requires entities to apply the interpretation prospectively to transfers of assets from customers received on or after 1 July 2009.

Apart from the above, the HKICPA has, in October 2008 and in May 2009, issued Improvements to HKFRSs which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendment to HKFRS 5 is effective for annual periods on or after 1 July 2009 and the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for the amendment to Appendix to HKAS 18 have been specified. The remaining amendments, being amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39, are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

The Company and Shanxi Puhua Group are in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that these new and revised HKFRSs are unlikely to have a significant impact on the Company's and Shanxi Puhua Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statements of comprehensive income to the extent of dividends received or receivable. The Company's investments in subsidiaries are stated at cost less any accumulated impairment losses.

Related parties

A party is considered to be related to the Company and Shanxi Puhua Group respectively if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company and Shanxi Puhua Group respectively; (ii) has an interest in the Company and Shanxi Puhua Group that gives it significant influence over the Company and Shanxi Puhua Group respectively; or (iii) has joint control over the Company and Shanxi Puhua Group respectively;

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Company and Shanxi Puhua Group or their respective parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Company's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statements of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Shanxi Puhua Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Shanxi Puhua Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of Shanxi Puhua Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Property, plant and equipment and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, except for mining structures, to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Item	**Residual value**	**Estimated useful life**
Building	5%	20 years
Plant and machinery	5%	8 years
Furniture and fixtures	5%	5 years
Motor vehicles	5%	5 years

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.

The mining structures of Shanxi Puhua Group include the main and auxiliary mine shafts and underground tunnels. Depreciation is provided to write off the cost of the mining structures using the units of production method based on the estimated production volume for which the structure was designed and over the total proved reserves of the coal mine.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

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 on disposal or retirement recognised in the statements of comprehensive income in an accounting period the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress representing buildings, mining structures under construction and other assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company and Shanxi Puhua Group other than legal title, are accounted for as finance leases in the Company's and Shanxi Puhua Group's accounts respectively. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statements of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company and Shanxi Puhua Group is the lessor, assets leased by the Company and Shanxi Puhua Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statements of comprehensive income on the straight-line basis over the lease terms in the respective accounts of the Company and Shanxi Puhua Group. Where the Company and Shanxi Puhua Group is the lessee, rentals payable under the operating leases are charged to the statements of comprehensive income on the straight-line basis over the lease terms in the respective accounts of the Company and Shanxi Puhua Group.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses, and are amortised on the units of production method based on the estimated production volume for which the structure was designed and over the total proved reserves of the coal mine.

Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment losses, and amortisation is calculated on the straight-line basis over the useful lives of 50 years.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds 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. An impairment loss is charged to the statements of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior accounting periods. A reversal of such an impairment loss is credited to the statements of comprehensive income in the period in which it arises.

Investments and other financial assets

The Company's and Shanxi Puhua Group's financial assets include only loans and receivables, which are initially recognised and measured at fair value. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs. The Company and Shanxi Puhua Group determines the classification of their respective financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of the reporting period.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company and Shanxi Puhua Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. 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 costs. Gains and losses are recognised in the statements of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Company and Shanxi Puhua Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

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 the impairment loss is recognised in the statements of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect of the debtor) that the Company and Shanxi Puhua Group will not be able to collect all of the respective amounts due under the original terms of an invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised by the Company and Shanxi Puhua Group respectively where:

- the rights to receive cash flows from the asset have expired;
- the Company and Shanxi Puhua Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company and Shanxi Puhua Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company and Shanxi Puhua Group has transferred their respective rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised in the accounts of the Company and Shanxi Puhua Group to the extent of the Company's and Shanxi Puhua Group's respective continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company and Shanxi Puhua Group could be required to repay respectively.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's and Shanxi Puhua Group's respective continuing involvement is the amount of the transferred asset that the Company and Shanxi Puhua Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Company's and Shanxi Puhua Group's respective continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans)

Financial liabilities including bills payable, other payables and due to related parties are initially stated at the fair values less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the statements of comprehensive income.

Gains and losses are recognised in the statements of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statements of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. In the case of work in progress and finished goods, comprises direct materials, direct labour and appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's and Shanxi Puhua Group's cash management respectively.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Provisions

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 a future outflow of resources 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 end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in the statements of comprehensive income.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and Shanxi Puhua Group and when the revenue can be measured reliably, on the following bases:

(i) from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statements of comprehensive income or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

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

Retirement benefits

The Company and Shanxi Puhua Group contributes on a monthly basis to defined contribution retirement schemes organized by relevant municipal and provincial governments in the PRC. The municipal and provincial government undertake to assume the retirement benefits payable to all existing and future retired employees under these plans and the Company and Shanxi Puhua Group has no further obligations for respective post-retirement benefits beyond the contributions made. The contributions to the schemes are charged to the statements of comprehensive income as and when incurred.

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in Shanxi Puhua Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statements of comprehensive income. 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 was determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Company's and Shanxi Puhua Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Impairment of assets

The Company and Shanxi Puhua Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or disposal; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, Shanxi Puhua Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of Shanxi Puhua Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Impairment of property, plant and equipment, including mining rights and land use right

Shanxi Puhua Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The carrying value of the property, plant and equipment, including mining structure, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in this report. Estimating the value in use requires Shanxi Puhua Group to estimate future cash flows from the cash generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. The net carrying amounts of property, plant and equipment in the consolidated statements of financial position of Shanxi Puhua Group at 31 December 2008 and 30 June 2009 were RMB192,800,000 and RMB280,608,000, respectively. The net carrying amount of mining rights and land use right in the consolidated statements of financial position of Shanxi Puhua Group at 31 December 2008 and 30 June 2009 were RMB1,477,000,000 and RMB1,532,968,000, respectively.

Mine reserves

Engineering estimates of Shanxi Puhua Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on a unit of production basis. Changes in the estimate of mine reserves are also taken into account in impairment assessment of mining rights. The net carrying amount of mining rights in the consolidated statements of financial position of Shanxi Puhua Group at 31 December 2008 and 30 June 2009 were RMB1,477,000,000 and RMB1,522,000,000, respectively.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed. The net carrying amounts of inventories in the consolidated statements of financial position of Shanxi Puhua Group at 31 December 2008 and 30 June 2009 were RMB18,000 and RMB4,835,000, respectively.

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the receivables and impairment loss in the period in which such estimate has been changed. The net carrying amounts of trade receivables in the consolidated statements of financial position of Shanxi Puhua Group at 31 December 2008 and 30 June 2009 were RMB1,025,000 and RMB76,080,000, respectively.

Current tax

Shanxi Puhua Group is subject to income taxes in Mainland China. Shanxi Puhua Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as liabilities in the consolidated statements of financial position of Shanxi Puhua Group as at 31 December 2008 and 30 June 2009 were nil and RMB315,000, respectively.

Provision for rehabilitation

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work which are discounted at a rate reflecting the term and nature of the obligation. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. During the Relevant Periods, the directors of Shanxi Puhua Group estimated that no provision for rehabilitation is required.

5. SEGMENT INFORMATION

Shanxi Puhua Group's revenue, profit or loss, assets and liabilities are solely generated from the business activity of mining and the sale of coal output in Mainland China. Accordingly, the directors are of the opinion that mining and the sale of coal output in Mainland China is a single reportable segment of Shanxi Puhua Group.

Information about products

During the six-month period ended 30 June 2009, Shanxi Puhua Group's revenue from external customers was solely related to the sales of coal output.

Information about geographical areas

Shanxi Puhua Group's revenue from external customers is derived solely from its operations in Mainland China, and no current and non-current assets and liabilities of Shanxi Puhua Group are located outside Mainland China, accordingly, no reportable segment information is presented in accordance with HKFRS 8 Operating Segments.

Information about major customers

Revenue from major customers contributed to over 10% of Shanxi Puhua Group's total revenue for the six-month period ended 30 June 2009 aggregated to 77% of Shanxi Puhua Group's total revenue for that period, and the revenue generated from each of such customers for that period are RMB25,845,000, RMB17,503,000 and RMB14,024,000 respectively, which aggregated to RMB57,372,000.

For other accounting periods in the Relevant Periods, neither the Company nor Shanxi Puhua Group has generated any revenue.

6. REVENUE, OTHER REVENUE AND GAINS

Revenue, which is also Shanxi Puhua Group's turnover, represents the net invoice value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts.

An analysis of the Company and Shanxi Puhua Group's revenue, other revenue and gain are as follows:

	The Company			Shanxi Puhua Group	
	Year ended 31 December 2006	Year ended 31 December 2007	Six-month period ended 30 June 2008	Year ended 31 December 2008	Six-month period ended 30 June 2009
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*
Revenue					
Sale of goods	–	–	–	–	74,860
Other revenue and gains					
Bank interest income	–	–	2	1,223	1,037
Gain on disposal of items of property, plant and equipment	–	–	–	207	–
Others	–	–	–	59	17
	–	–	2	1,489	1,054

Pursuant to an approval document issued by relevant government authorities, the trial operation of Shanxi Puhua Group's coal mine was approved to start in January 2009.

7. IMPAIRMENT/(REVERSAL OF IMPAIRMENT)

	The Company			Shanxi Puhua Group	
	Year ended 31 December 2006 *RMB'000*	2007 *RMB'000*	Six-month period ended 30 June 2008 *RMB'000* (Unaudited)	Year ended 31 December 2008 *RMB'000*	Six-month period ended 30 June 2009 *RMB'000*
Impairment/(reversal of impairment) of intangible assets	–	–	–	1,396,000	(53,269)
Impairment of trade receivables	–	–	–	1,925	–
	–	–	–	1,397,925	(53,269)

8. FINANCE COSTS

	The Company			Shanxi Puhua Group	
	Year ended 31 December 2006 *RMB'000*	2007 *RMB'000*	Six-month period ended 30 June 2008 *RMB'000* (Unaudited)	Year ended 31 December 2008 *RMB'000*	Six-month period ended 30 June 2009 *RMB'000*
Interest on a bank loan wholly repayable within five years	–	–	–	3,873	4,929
Other interest repayable within five years	–	2,778	46,632	52,239	–
	–	2,778	46,632	56,112	4,929

9. PROFIT/(LOSS) BEFORE TAX

The Company's and Shanxi Puhua Group's profit/(loss) before tax is arrived at after charging/(crediting):

		The Company			Shanxi Puhua Group	
		Year ended 31 December		Six-month period ended 30 June	Year ended 31 December	Six-month period ended 30 June
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)		
Cost of inventories sold		–	–	–	–	31,238
Depreciation	*13*	–	–	–	831	7,074
Amortisation of intangible assets*	*14*	–	–	–	–	8,269
Impairment/(reversal of impairment) of intangible assets	*7*	–	–	–	1,396,000	(53,269)
Impairment of trade receivables	*7*	–	–	–	1,925	–
Employee benefit expenses (including directors' remuneration (note 11)):						
Wages, salaries and staff welfare		–	18	12	276	8,378
Retirement benefit contributions		–	4	2	43	1,520
		–	22	14	319	9,898

* *The amortisation of intangible assets is included in "Cost of sales" in the statements of comprehensive income.*

10. INCOME TAX EXPENSES

The Company and its subsidiary are domiciled and operate in Mainland China, and subject to the PRC enterprise income tax.

Under the relevant PRC Corporate Income Tax Laws and regulations, the statutory enterprise income tax rate of 33% was applicable to the Company for the years ended 31 December 2006 and 2007 and that the income tax rate of 25% was applicable to the Company for the year ended 31 December 2008, and the six-month periods ended 30 June 2008 and 2009.

In accordance with an approval document of Urban District Guo Shui Zong Zi [2006] No. 120 issued by the Eerduosi Tax Bureau Urban District Branch on 19 June 2006, Hengtai is entitled to exemption from the PRC enterprise income tax for the years ended 31 December 2006, 2007 and 2008. Hengtai was subject to a income tax rate of 25% for the six-month period ended 30 June 2009.

An analysis of Shanxi Puhua Group's tax expenses for the year ended 31 December 2008 and six-month period ended 30 June 2009 is as follows:

	31 December 2008	30 June 2009
	RMB'000	*RMB'000*
Current – PRC	–	315
Deferred *(note 15)*	(349,928)	18,003
Total tax charged/(credited) for the year/period	(349,928)	18,318

A reconciliation of tax expenses applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and its subsidiary are domiciled to tax expenses at the effective tax rates, and a reconciliation of the statutory rates to the effective tax rates, are as follows:

	The Company						Shanxi Puhua Group			
	Year ended 31 December				Six-month period ended 30 June		Year ended 31 December		Six-month period ended 30 June	
	2006		2007		2008		2008		2009	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
					(Unaudited)					
Profit/(loss) before tax	–		(3,176)		(48,060)		504		73,373	
Income tax at the statutory income tax rate	–	–	(1,048)	33	(12,015)	25	126	25	18,343	25
Expenses not deductible for tax	–	–	–	–	–	–	555	110	35	–
Income not subject to tax	–	–	–	–	–	–	(364,756)	(72,372)	–	–
Tax losses utilised from previous periods	–	–	–	–	–	–	–	–	(60)	–
Tax losses not recognised	–	–	1,048	(33)	12,015	(25)	13,206	2,620	–	–
Tax losses capitalised in mining structures*	–	–	–	–	–	–	941	187	–	–
Tax charged/(credited) at effective rate	–	–	–	–	–	–	(349,928)	(69,430)	18,318	25

* *Such tax losses arose from the sales of coal output upon the construction of the coal mines of Shanxi Puhua Group.*

As at 31 December 2008 and 30 June 2009, deferred tax assets have not been recognised by Shanxi Puhua Group in respect of unused tax losses amounting to RMB56,020,000 and RMB55,781,000 respectively. Deferred tax assets have not been recognised for such tax losses as it is not considered probable that taxable profit will be available against which such tax losses can be utilised.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, deferred tax assets have not been recognised by the Company in respect of unused tax losses amounting to RMB20,000 and RMB3,196,000, RMB56,020,000 and RMB55,781,000, respectively. Deferred tax assets have not been recognised for such tax losses as it is not considered probable that taxable profit will be available against which such tax losses can be utilised.

11. DIRECTORS' REMUNERATION

Details of directors' remuneration of the Company and Shanxi Puhua Group are as follows:

	The Company			Shanxi Puhua Group	
	Year ended 31 December 2006	Year ended 31 December 2007	Six-month period ended 30 June 2008	Year ended 31 December 2008	Six-month period ended 30 June 2009
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	–	–	–	21	29
Retirement benefit contributions	–	–	–	4	6
Total	–	–	–	25	35

(a) The remuneration of the directors of Shanxi Puhua Group for the year ended 31 December 2008 and six-month period ended 30 June 2008 is set out below:

	Fees	Salaries, allowances and benefits in kind	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2008				
Hao Shenhai	–	21	4	25
Xue Zhendong	–	–	–	–
Zhang Jin	–	–	–	–
Zhang Wei	–	–	–	–
	–	21	4	25
Six-month period ended 30 June 2009				
Hao Shenhai	–	25	5	30
Xue Zhendong	–	2	1	3
Zhang Wei	–	2	–	2
	–	29	6	35

(b) Five highest paid employees

The five highest paid employees for the Company and Shanxi Puhua Group are as follow:

	The Company			Shanxi Puhua Group	
	Year ended 31 December		Six-month period ended 30 June	Year ended 31 December	Six-month period ended 30 June
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	–	18	12	286	303
Retirement benefit contributions	–	4	2	57	60
Total	–	22	14	343	363

The number of highest paid, non-director employees whose remuneration fell within the following band is as follows:

	The Company			Shanxi Puhua Group	
	Year ended 31 December		Six-month period ended 30 June	Year ended 31 December	Six-month period ended 30 June
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*
Nil to HK$1,000,000	–	5	5	5	5

During the Relevant Periods and the six-month period ended 30 June 2008, no remuneration was paid by the Company and Shanxi Puhua Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated comprehensive income/(loss) attributable to equity holders of the Company for the year ended 31 December 2008 and the six-month period ended 30 June 2009 included a comprehensive loss of RMB52,824,000 and a comprehensive income of RMB239,000 respectively, which have been dealt with in the financial statements of the Company.

13. PROPERTY, PLANT AND EQUIPMENT

The Company

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Furniture and fixtures				
Cost at 1 January, net of accumulated depreciation	–	–	–	5
Additions	–	–	5	–
Depreciation provided during the year/period	–	–	–	(1)
Net carrying amount at the end of the year/period	–	–	5	4

Shanxi Puhua Group

	Mining structures	Buildings	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2008							
At 1 January 2008:							
Cost	–	–	–	–	–	–	–
Accumulated depreciation	–	–	–	–	–	–	–
Net carrying amount	–	–	–	–	–	–	–
Cost at 1 January 2008, net of accumulated depreciation	–	–	–	–	–	–	–
Additions	–	20,908	26,921	262	420	101,428	149,939
Acquisition of a subsidiary *(note 26)*	–	2,310	7,586	427	1,262	32,300	43,885
Disposals	–	–	–	–	(193)	–	(193)
Depreciation provided during the year	–	(58)	(349)	(62)	(362)	–	(831)
Transfers	108,088	–	–	–	–	(108,088)	–
Cost at 31 December 2008, net of accumulated depreciation	108,088	23,160	34,158	627	1,127	25,640	192,800
At 31 December 2008:							
Cost	108,088	23,311	35,267	735	1,318	25,640	194,359
Accumulated depreciation	–	(151)	(1,109)	(108)	(191)	–	(1,559)
Net carrying amount	108,088	23,160	34,158	627	1,127	25,640	192,800
30 June 2009							
At 1 January 2009:							
Cost	108,088	23,311	35,267	735	1,318	25,640	194,359
Accumulated depreciation	–	(151)	(1,109)	(108)	(191)	–	(1,559)
Net carrying amount	108,088	23,160	34,158	627	1,127	25,640	192,800
Cost at 1 January 2009, net of accumulated depreciation	108,088	23,160	34,158	627	1,127	25,640	192,800
Additions	–	10,000	64,087	1,290	2,200	17,305	94,882
Depreciation provided during the period	(1,554)	(673)	(4,602)	(103)	(142)	–	(7,074)
Cost at 30 June 2009, net of accumulated depreciation	106,534	32,487	93,643	1,814	3,185	42,945	280,608
At 30 June 2009:							
Cost	108,088	33,311	99,354	2,025	3,518	42,945	289,241
Accumulated depreciation	(1,554)	(824)	(5,711)	(211)	(333)	–	(8,633)
Net carrying amount	106,534	32,487	93,643	1,814	3,185	42,945	280,608

All the buildings of Shanxi Puhua Group are located in Mainland China and are erected on land held under medium term leases.

14. INTANGIBLE ASSETS

Shanxi Puhua Group

	Mining rights	Land use right	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2008			
At 1 January 2008			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net carrying amount	–	–	–
Cost at 1 January 2008, net of accumulated amortisation	–	–	–
Acquisition of a subsidiary *(note 26)*	2,873,000	–	2,873,000
Impairment during the year	(1,396,000)	–	(1,396,000)
At 31 December 2008	1,477,000	–	1,477,000
At 31 December 2008			
Cost	2,873,000	–	2,873,000
Accumulated amortisation and impairment	(1,396,000)	–	(1,396,000)
Net carrying amount	1,477,000	–	1,477,000
30 June 2009			
At 1 January 2009			
Cost	2,873,000	–	2,873,000
Accumulated amortisation and impairment	(1,396,000)	–	(1,396,000)
Net carrying amount	1,477,000	–	1,477,000
Cost at 1 January 2009, net of accumulated amortisation	1,477,000	–	1,477,000
Addition	–	10,968	10,968
Reversal of impairment during the period	53,269	–	53,269
Amortisation	(8,269)	–	(8,269)
At 30 June 2009	1,522,000	10,968	1,532,968
At 30 June 2009			
Cost	2,873,000	10,968	2,883,968
Accumulated amortisation and impairment	(1,351,000)	–	(1,351,000)
Net carrying amount	1,522,000	10,968	1,532,968

The land use right of Shanxi Puhua Group is related to land located in Mainland China and is held under medium term lease.

Shanxi Puhua Group's mining rights with carrying amounts of approximately RMB1,477,000,000 and RMB1,522,000,000 as at 31 December 2008 and 30 June 2009, respectively, were pledged to secure interest-bearing bank borrowings of Shanxi Puhua Group (note 24).

Due to the decrease in the market price of coal products, an impairment provision has been made for mining rights at 31 December 2008. With the partial rebound in the market price of coal products, partial reversal of the impairment provision has been made for mining rights at 30 June 2009.

15. DEFERRED TAX

The Company had no deferred tax for the years ended 31 December 2006, 2007 and 2008, and the six- month period ended 30 June 2009. Movements in deferred tax of Shanxi Puhua Group for the year ended 31 December 2008 and six-month period ended 30 June 2009 are as follows:

Shanxi Puhua Group

	31 December 2008 *RMB'000*	**30 June 2009** *RMB'000*
At the beginning of the year/period, net	–	(339,087)
Acquisition of a subsidiary *(note 26)*	(689,015)	–
Deferred tax credited/(charged) to the statements of comprehensive income during the year/period *(note 10)*	349,928	(18,003)
At the end of the year/period, net	(339,087)	(357,090)

The principal components of Shanxi Puhua Group's deferred tax assets/(liabilities) are as follows:

	Accrual of expenses and safety fund *RMB'000*	Tax losses *RMB'000*	Depreciation and amortisation of non-current assets *RMB'00*	Fair value adjustment arising from acquisition of a subsidiary *RMB'00*	Impairment/ (reversal of impairment) of assets *RMB'000*	Total *RMB'000*
At 1 January 2008	–	–	–	–	–	–
Acquisition of a subsidiary *(note 26)*	–	4,472	(2,564)	(690,923)	–	(689,015)
Credited/(charged) to the consolidated statement of comprehensive income during the year	69	1,744	(885)	–	349,000	349,928
At 31 December 2008 and 1 January 2009	69	6,216	(3,449)	(690,923)	349,000	(339,087)
Credited/(charged) to the consolidated statement of comprehensive income during the period	365	(6,216)	1,165	–	(13,317)	(18,003)
At 30 June 2009	434	–	(2,284)	(690,923)	335,683	(357,090)

16. INVESTMENT IN A SUBSIDIARY

	As at 31 December			As at 30 June
	2006 *RMB'000*	**2007** *RMB'000*	**2008** *RMB'000*	**2009** *RMB'000*
Unlisted investment, at cost	–	–	665,000	665,000

On 29 July 2008, the Company acquired a 95% equity interest in Hengtai and thereafter, Hengtai became the subsidiary of the Company.

Particulars of the subsidiary are as follows:

Name	Place and date of incorporation and operation	Registered and paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Hengtai	PRC 3 June 2005	RMB180,000,000	95%	Mining and the sale of coal

As at 31 December 2008 and 30 June 2009, the 95% equity interest in Hengtai held by the Company was pledged to a bank for securing Shanxi Puhua Group's bank loan amounting to RMB500,000,000 *(note 24)*.

17. INVENTORIES

	Shanxi Puhua Group	
	31 December 2008	**30 June 2009**
	RMB'000	*RMB'000*
Materials and supplies	18	4,835

18. TRADE RECEIVABLES

Shanxi Puhua Group normally allows a credit period of not more than 90 days to its customers. Shanxi Puhua Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the above credit control and the fact that Shanxi Puhua Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the trade receivables of Shanxi Puhua Group as at 31 December 2008 and 30 June 2009 is as follows:

	31 December 2008	30 June 2009
	RMB'000	*RMB'000*
Within 1 month	1,025	22,384
1 to 2 months	–	19,139
2 to 3 months	–	17,785
3 to 6 months	–	16,772
6 months to 1 year	1,925	–
More than 1 year	2,851	4,776
	5,801	80,856
Less: Impairment	(4,776)	(4,776)
	1,025	76,080

The carrying amounts of the trade receivables approximate to their fair values.

The movement in the provision for impairment of trade receivables for the year ended 31 December 2008 was the result of an acquisition of a subsidiary.

The individually impaired trade receivables related to the amounts that were long outstanding. Shanxi Puhua Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the trade receivables of Shanxi Puhua Group that are not considered to be impaired as at 31 December 2008 and 30 June 2009 is as follows:

	31 December 2008	30 June 2009
	RMB'000	*RMB'000*
Neither past due nor impaired	1,025	59,308
Within 90 days past due but not impaired	–	16,772
	1,025	76,080

Receivables that were neither past due nor impaired relate to various customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good trading record with Shanxi Puhua Group. Based on past experience, the directors of Shanxi Puhua Group are of the opinion that no provision for impairment 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.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Company				Shanxi Puhua Group	
	31 December			30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	–	–	–	–	1,765	10,793
Loans to third parties	49,975	52,575	57,470	152,470	104,367	206,867
Deposits and other receivables	–	–	–	–	1,970	1,626
Others	–	712	246	–	246	–
	49,975	53,287	57,716	152,470	108,348	219,286
Less: Impairment	–	–	–	–	(8,793)	(8,793)
	49,975	53,287	57,716	152,470	99,555	210,493

Except for individually impaired prepayments, deposits and other receivables, the above assets are neither past due nor impaired and relate to prepayments, deposits and other receivables which have no recent history of default.

Loans to third parties are unsecured, interest-free and have no fixed terms of repayment.

The movement in the provision for impairment of prepayments, deposits and other receivables of Shanxi Puhua Group for the year ended 31 December 2008 was the result of an acquisition of a subsidiary.

20. BALANCES WITH RELATED PARTIES

The amounts due from related parties are set out below:

	The Company				Shanxi Puhua Group	
	31 December			30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Hengtai#	–	–	139,517	154,828	–	–
Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd.*	–	–	35,000	35,000	35,000	35,000
	–	–	174,517	189,828	35,000	35,000

\# *Subsidiary of the Company.*

* *Minority shareholder of Hengtai.*

The amounts due from related parties are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to related parties are set out below:

	The Company				Shanxi Puhua Group	
	31 December			30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Xue Zhendong*	–	–	3,211	3,211	3,211	3,211
Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd.**	–	–	–	–	90	90
	–	–	3,211	3,211	3,301	3,301

* *Shareholder of the Company.*

** *Minority shareholder of Hengtai.*

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	The Company				Shanxi Puhua Group	
	31 December			30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	6	1	45,195	140,027	210,362	241,637
Less: Pledged deposits for bills payable *(note 22)*	–	–	(45,000)	(140,000)	(75,026)	(170,000)
	6	1	195	27	135,336	71,637

The Company's and Shanxi Puhua Group's cash and bank balances were denominated in RMB. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company and Shanxi Puhua Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company and Shanxi Puhua Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The Company's cash and bank balances amounting to approximately RMB45,000,000 and RMB140,000,000 as at 31 December 2008 and 30 June 2009, respectively, were pledged to banks for securing the general banking facilities granted to the Company.

Shanxi Puhua Group's cash and bank balances amounting to approximately RMB75,026,000 and RMB170,000,000 as at 31 December 2008 and 30 June 2009, respectively, were pledged to banks for securing the general banking facilities granted to Shanxi Puhua Group.

22. BILLS PAYABLE

	The Company				Shanxi Puhua Group	
		31 December		30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills payable	–	–	45,000	140,000	105,000	200,000

An aged analysis of the bills payable of the Company and Shanxi Puhua Group are as follows:

	The Company				Shanxi Puhua Group	
		31 December		30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	–	–	–	–	–	–
1 to 2 months	–	–	–	40,000	–	40,000
2 to 3 months	–	–	45,000	100,000	45,000	100,000
3 to 6 months	–	–	–	–	60,000	60,000
	–	–	45,000	140,000	105,000	200,000

The Company's bills payable as at 31 December 2008 and 30 June 2009 were secured by pledged bank balances of approximately RMB45,000,000 and RMB140,000,000, respectively.

Shanxi Puhua Group's bills payable as at 31 December 2008 and 30 June 2009 were secured by pledged bank balances of approximately RMB75,026,000 and RMB170,000,000, respectively.

23. OTHER PAYABLES AND ACCRUALS

	The Company				Shanxi Puhua Group	
		31 December		30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Advances from customers	–	–	–	–	16,019	22,170
Loans from third parties	–	103,705	666,568	776,204	661,615	829,815
Accruals	–	–	–	–	15,324	35,156
Interest payables	–	2,778	55,017	55,017	56,158	56,413
Others	1	1	–	21	130	216
	1	106,484	721,585	831,242	749,246	943,770

At 31 December 2007, the Company's certain loans from third parties of RMB101,950,000 are unsecured, bears interest at the rate of 15% per annum and are repayable in 2008.

In August 2008, the Company has restructured the terms of the loans with relevant third parties pursuant to which the Company agreed to settle interest expenses aggregating to RMB55 million to the lenders and the loans are no longer interest-bearing, with the repayment dates of such loans changed to repayable on demand.

Save as aforesaid, the balance of the Company's and Shanxi Puhua Group's loans from third parties as at 31 December 2008 and 30 June 2009 are unsecured, interest-free and repayable on demand.

24. INTEREST-BEARING BANK BORROWINGS

			Shanxi Puhua Group	
	Effective interest rate (%)	Maturity	31 December 2008	30 June 2009
			RMB'000	*RMB'000*
Current				
Bank loan – secured	13.446	2009	20,000	20,000
Non-current				
Bank loan – secured	7.722-10.062	2011-2015	500,000	750,000
			520,000	770,000

	Shanxi Puhua Group	
	31 December 2008	**30 June 2009**
	RMB'000	*RMB'000*
Analysed into:		
Bank loan repayable:		
Within one year	20,000	20,000
In the second year	–	–
In the third to fifth years, inclusive	500,000	600,000
Beyond five years	–	150,000
	520,000	770,000

All bank loans are denominated in RMB. The carrying amounts of bank loans approximate to their fair values at each of the above statements of financial position date.

Certain bank loan of RMB20,000,000 as at 30 June 2009 (31 December 2008: RMB20,000,000) bears interest at the rate of 13.446% per annum, and the maturity date is 1 September 2009. Such bank loan is guaranteed by an independent third party.

Certain bank loan of RMB500,000,000 as at 30 June 2009 (31 December 2008: RMB500,000,000) is subject to the floating interest rate for five-year loans published by the People's Bank of China, and will mature in 2011 to 2013. Such bank loan is guaranteed by related parties, Mr. Zhao Ming and Mr. Hao Shenhai, and is secured by Shanxi Puhua Group's mining rights (note 14) and the 95% and 5% equity interests of Hengtai held by the Company and Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd., respectively.

Certain bank loan of RMB250,000,000 as at 30 June 2009 (31 December 2008: Nil) is subject to the floating interest rate for six-year loans published by the People's Bank of China, and will mature in 2014 to 2015. Such bank loan is guaranteed by related parties, Mr. Zhao Ming and Mr. Hao Shenhai, and is secured by Shanxi Puhua Group's mining rights (note 14).

25. SHARE CAPITAL

The registered and paid-up capital of the Company upon its establishment was RMB50,000,000. On 29 August 2008, the registered and paid-up capital of the Company increased to RMB150,000,000.

26. BUSINESS COMBINATION

In July 2008, the Company acquired a 95% equity interest in Hengtai from a third party for a cash consideration of RMB665,000,000. Hengtai is engaged in coal mining. Part of the purchase consideration amounting to RMB100,000,000 was prepaid by the Company in 2007.

The fair values of the identifiable assets and liabilities of Hengtai as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition *RMB'000*	Previous carrying amount *RMB'000*
Property, plant and equipment	*13*	43,885	43,885
Intangible assets	*14*	2,873,000	109,307
Prepayments for fixed assets		147,133	147,133
Deferred tax assets/(liabilities)	*15*	(689,015)	1,908
Inventories		22	22
Trade receivables		3,424	3,424
Prepayments, deposits and other receivables		1,260	1,260
Due from related parties		20,560	20,560
Cash and cash equivalents		2,907	2,907
Trade payables		(461)	(461)
Other payables and accruals		(146,107)	(146,107)
Due to related parties		(20,100)	(20,100)
Other non-current liabilities		(694)	(694)
Minority interests		(111,791)	(8,152)
		2,124,023	154,892
Excess of the acquirer's interest in the fair value of acquiree's assets and liabilities over the cost of a business combination recognised in the statement of comprehensive income		(1,459,023)	
		665,000	
Satisfied by:			
Cash		565,000	
Prepayment		100,000	
		665,000	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary during the year ended 31 December 2008 is as follows:

	RMB'000
Cash consideration	565,000
Cash and bank balances acquired	(2,907)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	562,093

Since its acquisition, Hengtai contributed a comprehensive loss of RMB8,767,000 to the consolidated comprehensive loss for the year ended 31 December 2008.

Hengtai did not contribute any turnover for the year ended 31 December 2008 since its acquisition.

Had the combination taken place at the beginning of the year ended 31 December 2008, the turnover and comprehensive income of Shanxi Puhua Group for the year would have been nil and RMB347,515,000 respectively.

27. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Company and Shanxi Puhua Group did not have any significant contingent liabilities.

28. PLEDGE OF ASSETS

Details of the Company's and Shanxi Puhua's assets pledged for securing bank borrowings and bills payable during the Relevant Periods are disclosed in notes 14, 16, 21, 22 and 24, respectively.

29. COMMITMENTS

The Company and Shanxi Puhua Group had the following commitments at the end of each of the Relevant Periods:

	The Company				Shanxi Puhua Group	
		31 December		30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:						
Within one year	–	565,000	–	–	287,954	279,471
In the second to fifth years, inclusive	–	–	–	–	–	–
	–	565,000	–	–	287,954	279,471

30. RELATED PARTY TRANSACTIONS

Transactions with related parties

(a) Directors' remuneration

Details of the directors' remuneration are disclosed in note 11.

(b) Balances with related parties

Details of the balances with related parties are disclosed in note 20.

(c) Guarantees

Details of guarantees are disclosed in note 24.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The Company and Shanxi Puhua Group's financial assets include only loans and receivables, and details of carrying amounts are as follows:

	The Company				Shanxi Puhua Group	
		31 December		30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	–	–	1,025	76,080
Financial assets included in prepayments, deposits and other receivables	49,975	53,287	57,716	152,470	97,790	199,700
Due from related parties	–	–	174,517	189,828	35,000	35,000
Pledged deposits	–	–	45,000	140,000	75,026	170,000
Cash and cash equivalents	6	1	195	27	135,336	71,637
	49,981	53,288	277,428	482,325	344,177	552,417

The carrying amounts of financial liabilities at amortised cost are as follows:

	The Company				Shanxi Puhua Group	
		31 December		30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills payable	–	–	45,000	140,000	105,000	200,000
Financial liabilities included in other payables and accruals	1	106,484	721,585	831,242	717,903	886,444
Interest-bearing bank borrowings	–	–	–	–	520,000	770,000
Due to related parties	–	–	3,211	3,211	3,301	3,301
Other liabilities – non-current	–	–	–	–	624	624
	1	106,484	769,796	974,453	1,346,828	1,860,369

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's and Shanxi Puhua Group's principal financial instruments comprise interest-bearing bank borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Company's and Shanxi Puhua Group's operations. The Company and Shanxi Puhua Group has various other financial assets and liabilities such as other receivables and bills payable, which arise directly from its operations.

The main risks arising from the Company's and Shanxi Puhua Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

Interest rate risk

Shanxi Puhua Group's exposure to the risk of changes in market interest rates relates primarily to Shanxi Puhua Group's long term bank borrowings with floating interest rates. The terms of repayment of the interest-bearing bank borrowings of Shanxi Puhua Group are disclosed in note 24.

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Company's and Shanxi Puhua Group's profit before tax and equity respectively.

	Change in basis interest rate	Decrease in profit/(loss) before tax	Decrease in equity
	%	*RMB'000*	*RMB'000*
The Company			
Six-month period ended 30 June 2008	10	–	–
Year ended 31 December 2007	10	–	–
Year ended 31 December 2006	10	–	–
Six-month period ended 30 June 2008	20	–	–
Year ended 31 December 2007	20	–	–
Year ended 31 December 2006	20	–	–
Shanxi Puhua Group			
Six-month period ended 30 June 2009	10	385	385
Year ended 31 December 2008	10	1,125	1,125
Six-month period ended 30 June 2009	20	770	770
Year ended 31 December 2008	20	2,250	2,250

Liquidity risk

The Company's and Shanxi Puhua Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade finance facilities. The Company's and Shanxi Puhua Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Company's and Shanxi Puhua Group's operations.

The Company's and Shanxi Puhua Group's cash and bank balances are placed with reputable financial institutions.

The maturity profile of the Company's and Shanxi Puhua Groups' financial liabilities, based on the contractual undiscounted payments, is as follows:

The Company

	As at 31 December 2006			
	On demand	Within 1 year	1 to 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	–	1	–	1

	As at 31 December 2007			
	On demand	Within 1 year	1 to 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	118,266	1	–	118,267

	As at 31 December 2008			
	On demand	**Within 1 year**	**1 to 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bills payable	–	45,000	–	45,000
Financial liabilities included in other payables and accruals	721,585	–	–	721,585
Due to related parties	3,211	–	–	3,211
	724,796	45,000	–	769,796

	As at 30 June 2009			
	On demand	**Within 1 year**	**1 to 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bills payable	–	140,000	–	140,000
Financial liabilities included in other payables and accruals	831,221	21	–	831,242
Due to related parties	3,211	–	–	3,211
	834,432	140,021	–	974,453

Shanxi Puhua Group

	As at 31 December 2008				
	On demand	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills payable	–	105,000	–	–	105,000
Financial liabilities included in other payables and accruals	716,632	1,271	–	–	717,903
Due to related parties	3,301	–	–	–	3,301
Interest-bearing bank borrowings	–	21,793	645,194	–	666,987
Other liabilities – non-current	–	70	280	560	910
	719,933	128,134	645,474	560	1,494,101

	As at 30 June 2009				
	On demand	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills payable	–	200,000	–	–	200,000
Financial liabilities included in other payables and accruals	884,832	1,612	–	–	886,444
Due to related parties	3,301	–	–	–	3,301
Interest-bearing bank borrowings	–	20,448	742,463	212,056	974,967
Other liabilities – non-current	–	70	280	560	910
	888,133	222,130	742,743	212,616	2,065,622

Credit risk

Shanxi Puhua Group's trades only with recognised and creditworthy third parties. It is Shanxi Puhua Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Company's exposure to bad debts is not significant.

The credit risk of Shanxi Puhua Group's other financial assets, which comprise cash and cash equivalents, prepayments, deposits and other receivables, and due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since Shanxi Puhua Group's trades only with recognised and creditworthy third parties, there is no requirement for collateral.

At 30 June 2009, trade receivables from the three largest customers accounted for 76% of trade receivables of Shanxi Puhua Group.

Save as aforesaid, at the end of each of the Relevant Periods, there was no significant concentrations of credit risk.

Foreign currency risk

Shanxi Puhua Group's business is located in Mainland China and most of the transactions are conducted in RMB. Most of Shanxi Puhua Group's assets and liabilities are denominated in RMB. Fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on Shanxi Puhua Group's profit or loss and equity during the Relevant Periods.

Capital management

The primary objective of the Company's and Shanxi Puhua Group's capital management is to safeguard the Company's and Shanxi Puhua 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 Company and Shanxi Puhua Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Company and Shanxi Puhua Group monitor capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt is calculated as the sum of bills payable, other payables and accruals, amounts due to related parties, less cash and bank balances. Equity represents equity attributable to the equity holders of the Company and Shanxi Puhua Group.

The gearing ratios as at the end of each of the Relevant Periods were as follows:

	The Company				Shanxi Puhua Group	
	31 December			30 June	31 December	30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills payable	–	–	45,000	140,000	105,000	200,000
Other payables and accruals	1	106,484	721,585	831,242	749,246	943,770
Interest-bearing bank borrowings	–	–	–	–	520,000	770,000
Due to related parties	–	–	3,211	3,211	3,301	3,301
Other liabilities – non-current	–	–	–	–	624	624
Less: Cash and bank balances	(6)	(1)	(45,195)	(140,027)	(210,362)	(241,637)
Net debt	(5)	106,483	724,601	834,426	1,167,809	1,676,058
Equity	49,980	46,804	172,637	172,876	628,681	680,995
Equity and net debt	49,975	153,287	897,238	1,007,302	1,796,490	2,357,053
Gearing ratio	–	69%	81%	83%	65%	71%

33. EVENTS AFTER THE REPORTING PERIOD

In September 2009, Shanxi Hengchuang, a subsidiary of Triumph, completed the acquisition of a 99% equity interest in the Company for a consideration of RMB148,500,000. Thereafter, the Company and its subsidiary became subsidiaries of Shanxi Hengchuang, and Triumph became the ultimate holding company of the Company.

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company nor Shanxi Puhua Group in respect of any period subsequent to 30 June 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

3. ACCOUNTANTS' REPORT ON EERDUOSI HENGTAI COAL COMPANY LIMITED

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 November 2009

The Directors
Yun Sky Chemical (International) Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Eerduosi Hengtai Coal Company Limited (the "Company") for each of the three years ended 31 December 2006, 2007 and 2008, and the six-month period ended 30 June 2009 (the "Relevant Periods") and the six-month period ended 30 June 2008 (the "30 June 2008 Financial Information"), prepared on the basis set out in note 2 of Section II below, for inclusion in the circular of Yun Sky Chemical (International) Holdings Limited ("Yun Sky") dated 18 November 2009 in connection with the proposed acquisition of the 100% equity interest in Triumph Fund A Limited ("Triumph"), the ultimate holding company of the Company, by Yun Sky.

The Company was incorporated as a limited liability company in the People's Republic of China (the "PRC") on 3 June 2005. The principal activities of the Company are mining and the sale of coal.

The Company has adopted 31 December as its financial year end date. The management accounts of the Company were prepared in accordance with PRC accounting standards and financial regulations. Accordingly, no audited accounts under Hong Kong Financial Reporting Standards ("HKFRSs") are available. For the purpose of this report, the directors of the Company have prepared the financial information, including the statements of comprehensive income, changes in equity and cash flows of the Company for each of the Relevant Periods and the six-month period ended 30 June 2008, the statements of financial position of the Company as at 31 December 2006, 2007 and 2008, and 30 June 2009, together with the notes thereto (collectively the "Financial Information") in accordance with HKFRSs (including all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). No adjustments were made to the Financial Information in preparing this report.

Respective Responsibilities of Directors and Reporting Accountants

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

It is our responsibility to form an independent opinion on the Financial Information for the Relevant Periods and to report our opinion to you.

The 30 June 2008 Financial Information has been prepared solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. It is our responsibility to form an independent review conclusion, based on our review on the comparative financial information and to report our conclusion to you.

Procedures Performed in Respect of the Financial Information

For the purpose of this report, we have carried out an independent audit on the financial information of the Company for the years ended 31 December 2006, 2007 and 2008 and the six-month period ended 30 June 2009, which is prepared by the directors of the Company in accordance with HKFRSs. We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and carried out such additional procedures as we consider necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Procedures Performed in Respect of the 30 June 2008 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2008 Financial Information 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 HKICPA. A review consists principally of making enquiries of the Company's management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2008 Financial Information.

Opinion in Respect of the Financial Information of the Relevant Periods

In our opinion, the Financial Information for the Relevant Periods prepared on the basis set out in note 2 of Section II gives, for the purpose of this report, a true and fair view of the results and cash flows of the Company for each of the Relevant Periods and the state of affairs of the Company as at 31 December 2006, 2007 and 2008, and 30 June 2009.

Review Conclusion in Respect of the 30 June 2008 Financial Information

Based on our review, nothing has come to our attention that causes us to believe that 30 June 2008 Financial Information does not give a true and fair view of the results and cash flows of the Company for the six-month period ended 30 June 2008 in accordance with HKFRSs.

I. FINANCIAL STATEMENTS

STATEMENTS OF COMPREHENSIVE INCOME

The following is a summary of the statements of comprehensive income of the Company for each of the Relevant Periods and the six-month period ended 30 June 2008, prepared on the basis set out in note 2 of Section II below:

		Year ended 31 December			Six-month period ended 30 June	
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
REVENUE	*6*	11,122	5,030	–	–	74,860
Cost of sales		(7,175)	(3,047)	–	–	(23,843)
Gross profit		3,947	1,983	–	–	51,017
Other revenue and gains	*6*	132	72	605	96	201
Selling and distribution expenses		(723)	(1,670)	–	–	(9,111)
Administrative expenses		(2,521)	(5,590)	(9,265)	(2,934)	(9,918)
Finance costs	*7*	–	(2,205)	(4,544)	(671)	(4,929)
Profit/(loss) before tax	*8*	835	(7,410)	(13,204)	(3,509)	27,260
Tax	*9*	–	1,470	1,366	438	(6,849)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		835	(5,940)	(11,838)	(3,071)	20,411
Attributable to:						
Equity holders of the Company		835	(5,940)	(11,838)	(3,071)	20,411

Information on earnings/(loss) per share is not presented as such information is not meaningful given the purpose of this report.

STATEMENTS OF FINANCIAL POSITION

The following is a summary of the statements of financial position of the Company as at the end of each of the Relevant Periods, prepared on the basis set out in note 2 of Section II below:

		As at 31 December			As at 30 June
		2006	**2007**	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*11*	7,892	28,846	192,795	280,604
Intangible assets	*12*	–	109,307	109,307	119,401
Prepayments for fixed assets		55,406	42,264	389,182	636,218
Deferred tax assets	*13*	–	1,470	2,836	–
Total non-current assets		63,298	181,887	694,120	1,036,223
CURRENT ASSETS					
Inventories	*14*	3	5	18	4,835
Trade receivables	*15*	2,926	288	1,025	76,080
Prepayments, deposits and other receivables	*16*	284	1,055	83,155	99,339
Due from related parties	*17*	184,850	111,350	–	–
Pledged deposits	*18*	–	–	30,026	30,000
Cash and cash equivalents	*18*	5,458	290	135,141	71,610
Total current assets		193,521	112,988	249,365	281,864
CURRENT LIABILITIES					
Trade and bills payables	*19*	1,219	464	60,000	60,000
Other payables and accruals	*20*	641	17,292	68,977	153,844
Interest-bearing bank borrowings	*21*	–	–	20,000	20,000
Tax payable		–	–	–	315
Due to related parties	*17*	82,140	110,240	139,607	154,918
Total current liabilities		84,000	127,996	288,584	389,077
NET CURRENT ASSETS/ (LIABILITIES)		109,521	(15,008)	(39,219)	(107,213)
TOTAL ASSETS LESS CURRENT LIABILITIES		172,819	166,879	654,901	929,010
NON-CURRENT LIABILITIES					
Deferred tax liabilities	*13*	–	–	–	3,698
Interest-bearing bank borrowings	*21*	–	–	500,000	750,000
Other liabilities		764	764	624	624
Total non-current liabilities		764	764	500,624	754,322
Net assets		172,055	166,115	154,277	174,688
EQUITY					
Equity attributable to equity holders of the Company					
Issued capital	*22*	180,000	180,000	180,000	180,000
Accumulated losses		(7,945)	(13,885)	(25,723)	(5,312)
Total equity		172,055	166,115	154,277	174,688

STATEMENTS OF CHANGES IN EQUITY

The movements in the statements of changes in equity of the Company for each of the Relevant Periods and the six-month period ended 30 June 2008, prepared on the basis set out in note 2 of Section II below, are as follows:

	Attributable to equity holders of the Company		
	Issued capital	**Accumulated losses**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2006	60,000	(8,780)	51,220
Issue of shares	120,000	–	120,000
Total comprehensive income for the year	–	835	835
At 31 December 2006 and at 1 January 2007	180,000	(7,945)	172,055
Total comprehensive loss for the year	–	(5,940)	(5,940)
At 31 December 2007 and at 1 January 2008	180,000	(13,885)	166,115
Total comprehensive loss for the year	–	(11,838)	(11,838)
At 31 December 2008 and at 1 January 2009	180,000	(25,723)	154,277
Total comprehensive income for the period	–	20,411	20,411
At 30 June 2009	180,000	(5,312)	174,688
Six-month period ended 30 June 2008 (Unaudited)			
At 31 December 2007 and at 1 January 2008	180,000	(13,885)	166,115
Total comprehensive loss for the period	–	(3,071)	(3,071)
At 30 June 2008	180,000	(16,956)	163,044

STATEMENTS OF CASH FLOWS

The statements of cash flows of the Company for each of the Relevant Periods and the six-month period ended 30 June 2008, prepared on the basis set out in note 2 of Section II below, are as follows:

		Year ended 31 December			Six-month period ended 30 June	
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		835	(7,410)	(13,204)	(3,509)	27,260
Adjustments for:						
Finance costs	*7*	–	2,205	4,544	671	4,929
Interest income	*6*	(132)	(59)	(247)	(4)	(184)
Depreciation	*8*	76	439	1,237	406	7,073
Gain on disposal of items of property, plant and equipment	*6*	–	–	(207)	–	–
Amortisation of intangible assets	*8*	–	–	–	–	874
Impairment of trade receivables	*8*	1,527	1,324	1,925	–	–
		2,306	(3,501)	(5,952)	(2,436)	39,952
Increase in inventories		(3)	(2)	(13)	(17)	(4,817)
(Increase)/decrease in trade receivables		(4,453)	1,314	(2,662)	(3,136)	(75,055)
Increase in prepayments, deposits and other receivables		(250)	(771)	(2,680)	(205)	(8,684)
Increase/(decrease) in trade payables		1,219	(755)	(464)	(3)	–
Increase in other payables and accruals		361	1,451	21,130	11,310	13,838
Net cash inflow/(outflow) from operating activities		(820)	(2,264)	9,359	5,513	(34,766)

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	132	59	247	4	184
Purchases of items of property, plant and equipment	(7,204)	(21,393)	(156,795)	(14,474)	(82,672)
Proceeds from disposal of items of property, plant and equipment	–	–	207	–	–
Purchase of intangible assets	–	(109,307)	–	–	(10,968)
(Increase)/decrease in prepayments for fixed assets	(55,406)	13,142	(346,918)	(104,869)	(247,036)
Increase in prepayments, deposits and other receivables	–	–	(79,420)	–	(7,500)
(Increase)/decrease in amounts due from related parties	(93,553)	73,500	111,350	90,790	–
(Increase)/decrease in pledged deposits	–	–	(30,026)	–	26
Increase in trade and bills payables	–	–	60,000	–	–
Net cash outflow from investing activities	(156,031)	(43,999)	(441,355)	(28,549)	(347,966)
CASH FLOWS FROM FINANCING ACTIVITIES					
New bank loans	–	–	520,000	–	250,000
Increase in issued capital	120,000	–	–	–	–
Interest paid	–	(2,205)	(3,403)	(671)	(4,674)
Increase/(decrease) in amounts due to related parties	41,950	28,100	29,367	(90,140)	15,311
Increase in other payables and accruals	280	15,200	20,883	116,464	58,564
Net cash inflow from financing activities	162,230	41,095	566,847	25,653	319,201
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	5,379	(5,168)	134,851	2,617	(63,531)
Cash and cash equivalents at beginning of year/period	79	5,458	290	290	135,141
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	5,458	290	135,141	2,907	71,610
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equivalents	5,458	290	135,141	2,907	71,610

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND THE REORGANISATION

The Company was incorporated as a limited liability company in the PRC on 3 June 2005. Since then, the holding company of the Company was Baotou City Hengtong (Group) Co., Ltd. ("Hengtong") until June 2006 when Hengtong's equity interest in the Company was reduced from 90% to 30%, and Mr. Zhang Hongliang's equity interest in the Company was increased from 10% to 70%. In July 2008, Shanxi Puhua Deqin Metallurgy Technology Co., Ltd. ("Shanxi Puhua") acquired a 95% equity interest in the Company and became the Company's holding company.

In September 2009, Shanxi Hengchuang Industrial Co., Ltd. ("Shanxi Hengchuang"), a subsidiary of Triumph, had completed the acquisition of a 99% equity interest in Shanxi Puhua and thereafter, both Shanxi Puhua and the Company became subsidiaries of Shanxi Hengchuang and Triumph became the ultimate holding company of the Company.

2. BASIS OF PREPARATION

As at 30 June 2009, the Company's current liabilities exceeded its current assets by RMB107 million. Nevertheless, the directors of the Company have prepared the Financial Information on a going concern basis because Shanxi Puhua has agreed to extend the repayment date of the balance of RMB155 million due to it by the Company as at 30 June 2009 to 31 December 2010 and hence the directors are of the opinion that the Company shall have adequate financial resources to meet with its liabilities when they fall due in the foreseeable future.

The Financial Information has been prepared in conformity with HKFRSs and the disclosure requirements of Hong Kong Companies Ordinance. The Financial Information has been prepared on a historical cost convention. The accounting policies set out below have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

For the purpose of the Financial Information, the Company has adopted at the beginning of the Relevant Periods, all the new and revised HKFRSs applicable to the Relevant Periods.

The Company has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in the Financial Information:

	Applicable for annual periods beginning on or after
Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters	1 January 2010
HKFRS 1 (Revised) First-time Adoption of Hong Kong Financial Reporting Standards	1 July 2009
Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions	1 January 2010
HKFRS 3 (Revised) Business Combinations	1 July 2009
HKAS 27 (Revised) Consolidated and Separate Financial Statements	1 July 2009
Amendment to HKAS 32 Classification of Rights Issues	1 February 2010
Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	1 July 2009
HK(IFRIC) – Int 17 Distributions of Non-cash Assets to Owners	1 July 2009

Besides, HK(IFRIC)-Int 18 Transfers of Assets from Customers requires entities to apply the interpretation prospectively to transfers of assets from customers received on or after 1 July 2009.

Apart from the above, the HKICPA has, in October 2008 and in May 2009, issued Improvements to HKFRSs which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendment to HKFRS 5 is effective for annual periods on or after 1 July 2009 and the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for the amendment to Appendix to HKAS 18 have been specified. The remaining amendments, being amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39, are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

The Company is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that these new and revised HKFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds 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. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior accounting periods. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

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

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

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, except for mining structures, to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Item	Residual value	Estimated useful life
Building	5%	20 years
Plant and machinery	5%	8 years
Furniture and fixtures	5%	5 years
Motor vehicles	5%	5 years

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.

The mining structures of the Company include the main and auxiliary mine shafts and underground tunnels. Depreciation is provided to write off the cost of the mining structures using the units of production method based on the estimated production volume for which the structure was designed and over the total proved reserves of the coal mine.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

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 on disposal or retirement recognised in the statement of comprehensive income in an accounting period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress representing buildings, mining structures under construction and other assets under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses, the mining rights are amortised on the units of production method based on the estimated production volume for which the structure was designed and over the total proved reserves of the coal mine.

Land use rights

Land use rights are stated at cost less accumulated amortization and any impairment losses, and amortisation is calculated on the straight-line basis over the useful lives of 50 years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessor, assets leased by the Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Company is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Investments and other financial assets

The Company's financial assets include only loans and receivables, which are initially recognised and measured at fair value. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of the reporting period.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. 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 costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

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 the impairment loss is recognised in the statements of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans)

Financial liabilities including trade, bills and other payables, amounts due to related parties and interest-bearing bank borrowings are initially stated at the fair values less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the statements of comprehensive income.

Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statements of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. In the case of work in progress and finished goods, comprises direct materials, direct labour and appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Provisions

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 a future outflow of resources 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 end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in the statements of comprehensive income.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

(i) from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statements of comprehensive income or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

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

Retirement benefits

The Company contributes on a monthly basis to a defined contribution retirement scheme organised by relevant municipal and provincial government in the PRC. The municipal and provincial government undertake to assume the retirement benefits payable to all existing and future retired employees under these plans and the Company has no further obligations for post-retirement benefits beyond the contributions made. The contributions to the schemes are charged to the statement of comprehensive income as and when incurred.

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statements of comprehensive income. 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 was determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Impairment of assets

The Company has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or disposal; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Company has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Company with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Impairment of property, plant and equipment, including mining rights and land use rights

The Company assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The carrying value of the property, plant and equipment, including mining rights and land use right, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in this report. Estimating the value in use requires the Company to estimate future cash flows from the cash generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. The net carrying amounts of property, plant and equipment as at 31 December 2006, 2007 and 2008 and 30 June 2009 were RMB7,892,000, RMB28,846,000, RMB192,795,000 and RMB280,604,000, respectively. The net carrying amounts of mining rights and land use right was nil, RMB109,307,000, RMB109,307,000 and RMB119,401,000 as at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 respectively.

Mine reserves

Engineering estimates of the Company's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on a unit of production basis. Changes in the estimate of mine reserves are also taken into account in impairment assessment of mining rights. The net carrying amounts of mining rights was nil, RMB109,307,000, RMB109,307,000 and RMB108,433,000 as at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 respectively.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed. The net carrying amounts of inventories as at 31 December 2006, 2007 and 2008, and 30 June 2009 were RMB3,000, RMB5,000, RMB18,000 and RMB4,835,000, respectively

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the receivables and impairment loss in the period in which such estimate has been changed. The net carrying amounts of trade receivables as at 31 December 2006, 2007 and 2008 and 30 June 2009 were RMB2,926,000, RMB288,000, RMB1,025,000 and RMB76,080,000, respectively.

Current tax and deferred tax

The Company is subject to income taxes in Mainland China. The Company carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Company's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amounts of current tax payable carried as liabilities in the statements of financial position as at 30 June 2009 was RMB315,000, and nil as at 31 December 2006, 2007 and 2008.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact on the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amount of deferred tax assets carried as an asset in the statements of financial position as at 31 December 2006, 2007 and 2008 and 30 June 2009 were nil, RMB1,470,000, RMB2,836,000 and nil respectively.

Provision for rehabilitation

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work which are discounted at a rate reflecting the term and nature of the obligation. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the statement of financial position by adjusting the rehabilitation asset and liability. During the Relevant Periods, the directors of the Company estimated that no provision for rehabilitation is required.

5. SEGMENT INFORMATION

The Company's revenue, profit or loss, assets and liabilities are solely generated from the business activity of mining and the sale of coal output in Mainland China. Accordingly, the directors are of the opinion that mining and the sale of coal output in Mainland China is a single reportable segment of the Company for each of the reporting periods.

Information about geographical areas

The Company's revenue from external customers is derived solely from its operations in Mainland China, and no current and non-current assets and liabilities of the Company are located outside Mainland China. Accordingly, no reportable segment information is presented in accordance with HKFRS 8 Operating Segments.

Information about major customers

Revenue from one major customer contributed to over 10% of the Company's total revenue for the year ended 31 December 2006 aggregated to 97% of the Company's total revenue for that period, and the revenue generated from such customer for that period was RMB10,827,000.

Revenue from major customers contributed to over 10% of the Company's total revenue for the year ended 31 December 2007 aggregated to 92% of the Company's total revenue for that period, and the revenue generated from each of such customers for that period was RMB3,859,000 and RMB785,000 respectively, which aggregated to RMB4,644,000.

Revenue from major customers contributed to over 10% of the Company's total revenue for the six-month period ended 30 June 2009 aggregated to 77% of the Company's total revenue for that period, and the revenue generated from each of such customers for that period was RMB25,845,000, RMB17,503,000 and RMB14,024,000 respectively, which aggregated to RMB57,372,000.

For other accounting periods in the Relevant Periods, the Company has not generated any revenue.

6. REVENUE, OTHER REVENUE AND GAINS

Revenue, which is also the Company's turnover, represents the net invoice value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts.

An analysis of the Company's revenue, other revenue and gains for each of the Relevant Periods and the six-month period ended 30 June 2008 is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue					
Sale of goods *(note)*	11,122	5,030	–	–	74,860
Other revenue and gains					
Interest income	132	59	247	4	184
Gain on disposal of items of property, plant and equipment	–	–	207	–	–
Others	–	13	151	92	17
Total other revenue and gains	132	72	605	96	201

Note: Pursuant to an approval document issued by relevant government authorities, the trial operation period of the Company's coal mine was approved to start in January 2009. Revenue for the years ended 31 December 2006 and 2007 arose from the Company's trading of bought-in coal products. Such trading activities ceased in 2008.

7. FINANCE COSTS

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest on a bank loan wholly repayable within five years	–	–	3,873	–	4,929
Other interest repayable within five years	–	2,205	671	671	–
	–	2,205	4,544	671	4,929

8. PROFIT/(LOSS) BEFORE TAX

The Company's profit/(loss) before tax is arrived at after charging/(crediting):

		Year ended 31 December			Six-month period ended 30 June	
		2006	2007	2008	2008	2009
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cost of inventories sold		7,175	3,047	–	–	23,843
Depreciation	*11*	76	439	1,237	406	7,073
Amortisation of intangible assets*	*12*	–	–	–	–	874
Gain on disposal of items of property, plant and equipment	*6*	–	–	(207)	–	–
Impairment of trade receivables**	*15*	1,527	1,324	1,925	–	–
Employee benefit expenses (including directors' remuneration *(note 10)*):						
Wages, salaries and staff welfare		256	1,693	724	492	8,329
Retirement benefit contributions		45	297	130	85	1,510
		301	1,990	854	577	9,839

* *The amortisation of intangible assets is included in "Cost of sales" in the statements of comprehensive income.*

** *The impairment of trade receivables is included in "Administrative expenses" in the statements of comprehensive income.*

9. INCOME TAX EXPENSES

The Company is domiciled and operates in Mainland China, and subject to the PRC enterprise income tax.

In accordance with the approval document of Urban District Guo Shui Zong Zi [2006] No. 120 issued by the Eerduosi Tax Bureau Urban District Branch on 19 June 2006, the Company is entitled to exemption from the PRC enterprise income tax for the years ended 31 December 2006, 2007 and 2008. The Company was subject to a income tax rate of 25% for the six-month period ended 30 June 2009.

An analysis of the Company's tax expenses for each of the Relevant Periods and the six-month period ended 30 June 2008 is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current – PRC	–	–	–	–	315
Deferred *(note 13)*	–	(1,470)	(1,366)	(438)	6,534
Total tax charge/(credit) for the year/period	–	(1,470)	(1,366)	(438)	6,849

A reconciliation of tax expenses applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company is domiciled to tax expenses at the effective tax rates, and a reconciliation of the statutory rates to the effective tax rates, are as follows:

	Year ended 31 December						Six-month period ended 30 June			
	2006		**2007**		**2008**		**2008**		**2009**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (Unaudited)	%	*RMB'000*	%
Profit/(Loss) before tax	835		(7,410)		(13,204)		(3,509)		27,260	
Income tax at the statutory income tax rate	276	33	(2,445)	33	(3,301)	25	(877)	25	6,815	25
Change in tax rate	–	–	470	(6)	–	–	–	–	–	–
Expenses not deductible for tax	515	62	505	(7)	651	(5)	96	(3)	34	–
Tax exemption	(791)	(95)	–	–	–	–	–	–	–	–
Tax losses capitalised in mining structures*	–	–	–	–	1,284	(10)	343	(10)	–	–
Tax charged/(credited) at the Company's effective rate	–	–	(1,470)	20	(1,366)	10	(438)	12	6,849	25

* *Such tax losses arose from the sale of coal output upon the construction of the coal mines of the Company.*

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Company did not have any unreognised deferred tax assets.

10. DIRECTORS' REMUNERATION

Details of directors' remuneration during the Relevant Periods and the six-month period ended 30 June 2008 are as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	–	–	21	–	25
Retirement benefit contributions	–	–	4	–	5
Total	–	–	25	–	30

(a) The remuneration of the directors for each of the Relevant Periods and the six-month period ended 30 June 2008 is set out below:

	Fees	**Salaries, allowances and benefits in kind**	**Retirement benefit contributions**	**Total remuneration**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006				
Zhang Hongliang	–	–	–	–
Year ended 31 December 2007				
Zhang Jin	–	–	–	–
Year ended 31 December 2008				
Zhang Jin	–	–	–	–
Hao Shenhai	–	21	4	25
Six-month period ended 30 June 2009				
Hao Shenhai	–	25	5	30
Six-month period ended 30 June 2008 (Unaudited)				
Zhang Jin	–	–	–	–

(b) Five highest paid employees

The five highest paid employees for each of the Relevant Periods and the six-month period ended 30 June 2008 is set out as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	83	519	630	344	303
Retirement benefit contributions	16	104	126	69	60
Total	99	623	756	413	363

The number of highest paid, non-director employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
				(Unaudited)	
Nil to Hong Kong dollar *(HK$)* 1,000,000	5	5	5	5	5

During the Relevant Periods and the six-month period ended 30 June 2008, no remuneration was paid by the Company to the directors as an inducement to join or upon joining the Company or as compensation for loss of office.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2006						
At 1 January 2006:						
Cost	–	–	–	–	–	–
Accumulated depreciation	–	–	–	–	–	–
Net carrying amount	–	–	–	–	–	–
Cost at 1 January 2006, net of accumulated depreciation	–	–	–	–	–	–
Additions	–	133	27	664	7,144	7,968
Depreciation provided during the year	–	(5)	(2)	(69)	–	(76)
Cost at 31 December 2006, net of accumulated depreciation	–	128	25	595	7,144	7,892
At 31 December 2006:						
Cost	–	133	27	664	7,144	7,968
Accumulated depreciation	–	(5)	(2)	(69)	–	(76)
Net carrying amount	–	128	25	595	7,144	7,892
31 December 2007						
At 1 January 2007:						
Cost	–	133	27	664	7,144	7,968
Accumulated depreciation	–	(5)	(2)	(69)	–	(76)
Net carrying amount	–	128	25	595	7,144	7,892
Cost at 1 January 2007, net of accumulated depreciation	–	128	25	595	7,144	7,892
Additions	2,403	5,447	258	470	13,091	21,669
Disposals	–	–	–	(276)	–	(276)
Depreciation provided during the year	(35)	(255)	(21)	(128)	–	(439)
Cost at 31 December 2007, net of accumulated depreciation	2,368	5,320	262	661	20,235	28,846
At 31 December 2007:						
Cost	2,403	5,580	285	771	20,235	29,274
Accumulated depreciation	(35)	(260)	(23)	(110)	–	(428)
Net carrying amount	2,368	5,320	262	661	20,235	28,846

	Mining structures	Buildings	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2008							
At 1 January 2008:							
Cost	–	2,403	5,580	285	771	20,235	29,274
Accumulated depreciation	–	(35)	(260)	(23)	(110)	–	(428)
Net carrying amount	–	2,368	5,320	262	661	20,235	28,846
Cost at 1 January 2008, net of accumulated depreciation	–	2,368	5,320	262	661	20,235	28,846
Additions	–	20,908	29,687	445	846	113,493	165,379
Disposals	–	–	–	–	(193)	–	(193)
Depreciation provided during the year	–	(116)	(849)	(85)	(187)	–	(1,237)
Transfers	108,088	–	–	–	–	(108,088)	–
Cost at 31 December 2008, net of accumulated depreciation	108,088	23,160	34,158	622	1,127	25,640	192,795
At 31 December 2008:							
Cost	108,088	23,311	35,267	730	1,318	25,640	194,354
Accumulated depreciation	–	(151)	(1,109)	(108)	(191)	–	(1,559)
Net carrying amount	108,088	23,160	34,158	622	1,127	25,640	192,795
30 June 2009							
At 1 January 2009:							
Cost	108,088	23,311	35,267	730	1,318	25,640	194,354
Accumulated depreciation	–	(151)	(1,109)	(108)	(191)	–	(1,559)
Net carrying amount	108,088	23,160	34,158	622	1,127	25,640	192,795
Cost at 1 January 2009, net of accumulated depreciation	108,088	23,160	34,158	622	1,127	25,640	192,795
Additions	–	10,000	64,087	1,290	2,200	17,305	94,882
Depreciation provided during the period	(1,554)	(673)	(4,602)	(102)	(142)	–	(7,073)
Cost at 30 June 2009, net of accumulated depreciation	106,534	32,487	93,643	1,810	3,185	42,945	280,604
At 30 June 2009:							
Cost	108,088	33,311	99,354	2,020	3,518	42,945	289,236
Accumulated depreciation	(1,554)	(824)	(5,711)	(210)	(333)	–	(8,632)
Net carrying amount	106,534	32,487	93,643	1,810	3,185	42,945	280,604

All the buildings of the Company are located in Mainland China and are erected on land held under medium term leases.

12. INTANGIBLE ASSETS

	Mining rights *RMB'000*	Land use right *RMB'000*	Total *RMB'000*
31 December 2006			
At 1 January 2006			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net carrying amount	–	–	–
Cost at 1 January 2006, net of accumulated amortisation	–	–	–
Addition	–	–	–
At 31 December 2006	–	–	–
At 31 December 2006			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net carrying amount	–	–	–
31 December 2007			
At 1 January 2007			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net carrying amount	–	–	–
Cost at 1 January 2007, net of accumulated amortisation	–	–	–
Addition	109,307	–	109,307
At 31 December 2007	109,307	–	109,307
At 31 December 2007			
Cost	109,307	–	109,307
Accumulated amortisation	–	–	–
Net carrying amount	109,307	–	109,307

	Mining rights	Land use right	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2008			
At 1 January 2008			
Cost	109,307	–	109,307
Accumulated amortisation	–	–	–
Net carrying amount	109,307	–	109,307
Cost at 1 January 2008, net of accumulated amortisation	109,307	–	109,307
Addition	–	–	–
At 31 December 2008	109,307	–	109,307
At 31 December 2008			
Cost	109,307	–	109,307
Accumulated amortisation	–	–	–
Net carrying amount	109,307	–	109,307
30 June 2009			
At 1 January 2009			
Cost	109,307	–	109,307
Accumulated amortisation	–	–	–
Net carrying amount	109,307	–	109,307
Cost at 1 January 2009, net of accumulated amortisation	109,307	–	109,307
Addition	–	10,968	10,968
Amortization	(874)	–	(874)
At 30 June 2009	108,433	10,968	119,401
At 30 June 2009			
Cost	109,307	10,968	120,275
Accumulated amortisation	(874)	–	(874)
Net carrying amount	108,433	10,968	119,401

The land use right of the Company is related to land located in Mainland China and is held under medium term lease.

The Company's mining rights with carrying amounts of approximately RMB109,307,000 and RMB108,433,000 as at 31 December 2008 and 30 June 2009, respectively, were pledged to secure interest-bearing bank borrowings of the Company (note 21).

13. DEFERRED TAX

The movements in deferred tax during the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period, net	–	–	1,470	2,836
Deferred tax credited/(charged) to the statements of comprehensive income during the year/period *(note 9)*	–	1,470	1,366	(6,534)
At the end of the year/period, net	–	1,470	2,836	(3,698)

The principal components of the Company's deferred tax assets/(liabilities) are as follows:

	Salary and welfare payables	Tax loss	Depreciation and amortisation of non-current assets	Accrual of safety fund	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	–	–	–	–	–
Credited/(charged) to the statement of comprehensive income during the year	–	–	–	–	–
At 31 December 2006 and 1 January 2007	–	–	–	–	–
Credited/(charged) to the statement of comprehensive income during the year	–	3,140	(1,670)	–	1,470
At 31 December 2007 and 1 January 2008	–	3,140	(1,670)	–	1,470
Credited/(charged) to the statement of comprehensive income during the year	69	3,076	(1,779)	–	1,366
At 31 December 2008 and 1 January 2009	69	6,216	(3,449)	–	2,836
Credited/(charged) to the statement of comprehensive income during the period	626	(6,216)	(683)	(261)	(6,534)
At 30 June 2009	695	–	(4,132)	(261)	(3,698)

14. INVENTORIES

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Materials and supplies	3	5	18	4,835

15. TRADE RECEIVABLES

The Company normally allows a credit period of not more than 90 days to its customers. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the above credit control and the fact that the Company's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the trade receivables of the Company as at the end of each of the Relevant Periods is as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	–	–	1,025	22,384
1 to 2 months	–	–	–	19,139
2 to 3 months	–	–	–	17,785
3 to 6 months	3,202	288	–	16,772
6 months to 1 year	1,251	1,324	1,925	–
More than 1 year	–	1,527	2,851	4,776
	4,453	3,139	5,801	80,856
Less: Impairment	(1,527)	(2,851)	(4,776)	(4,776)
	2,926	288	1,025	76,080

The carrying amounts of the trade receivables approximate to their fair values.

The movements in the provision for impairment of trade receivables as at 31 December 2006, 2007 and 2008, and 30 June 2009 are as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	1,527	2,851	4,776
Impairment losses recognised *(note 8)*	1,527	1,324	1,925	–
At the end of the year/period	1,527	2,851	4,776	4,776

The individually impaired trade receivables relate to the amounts that were long outstanding. The Company does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the trade receivables that are not considered to be impaired as at 31 December 2006, 2007 and 2008, and 30 June 2009 is as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	–	–	1,025	59,308
Within 90 days past due but not impaired	1,675	288	–	16,772
Over 90 days past due but not impaired	1,251	–	–	–
Total	2,926	288	1,025	76,080

Receivables that were neither past due nor impaired relate to various customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good trading record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	264	926	1,765	10,793
Loans to third parties	–	–	88,213	95,713
Deposits and other receivables	20	129	1,970	1,626
	284	1,055	91,948	108,132
Less: Impairment	–	–	(8,793)	(8,793)
	284	1,055	83,155	99,339

Except for individually impaired prepayments, deposits and other receivables, the above assets are neither past due nor impaired and relate to prepayments, deposits and other receivables which have no recent history of default.

Loans to third parties are unsecured, interest-free and have no fixed terms of repayment.

The movements in the provision for impairment of prepayments, deposits and other receivables as at 31 December 2006, 2007 and 2008, and 30 June 2009, are as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	–	–	8,793
Reclassification *(note 17(a))*	–	–	8,793	–
At the end of the year/period	–	–	8,793	8,793

17. BALANCES WITH RELATED PARTIES

The amounts due from related parties as at the end of each of the Relevant Periods are set out below:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Inner Mongolia Heng Tong Jin An Co., Ltd. *(Note b)*	54,000	–	–	–
Beijing Hua Tai Tong Da Auto Sales Co., Ltd. *(Note b)*	40,090	40,090	–	–
Hengtong *(Note a)*	35,000	35,000	–	–
Eerduosi Shi Jia Real Estate Company *(Note b)*	27,000	27,000	–	–
Rong Cheng Hua Tai Auto Company *(Note b)*	19,500	–	–	–
Zhang Xiugen *(Note c)*	13,253	13,253	–	–
Miao Yuli *(Note c)*	4,800	4,800	–	–
	193,643	120,143	–	–
Less: Impairment				
Hengtong	(8,793)	(8,793)	–	–
Total	184,850	111,350	–	–

Note a: Following Hengtong's transfer of all of its equity interest in the Company to Shanxi Puhua on 29 July 2008, Hengtong is no longer a shareholder of the Company. The unsettled balance due from Hengtong of RMB8,793,000 and the related impairment provision of RMB8,793,000 were all reclassified to other receivables during the year ended 31 December 2008.

Note b: Fellow subsidiaries of Hengtong.

Note c: Senior management of Hengtong.

Except for the individually impaired amount due from Hengtong, the above balances were unsecured, interest-free and repaid on demand.

The movements in the provision for impairment of amounts due from related parties as at 31 December 2006, 2007 and 2008, and 30 June 2009, are as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	8,793	8,793	8,793	–
Reclassified to prepayments, deposits and other receivables *(note 16)*	–	–	(8,793)	–
At the end of the year/period	8,793	8,793	–	–

The amounts due to related parties as at the end of each of the Relevant Periods are set out below:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Eerduosi Hua Tai Engine Co., Ltd. *(Note a)*	41,450	28,550	–	–
Beijing Hua Tai Auto Sales Co., Ltd. *(Note a)*	40,090	40,090	–	–
Eerduosi Xin Hua Auto Trading Co., Ltd. *(Note a)*	600	16,600	–	–
Shanxi Puhua *(Note b)*	–	–	139,517	154,828
Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd. *(Note b)*	–	–	90	90
She Qihua *(Note c)*	–	5,000	–	–
Ma Xiuying *(Note c)*	–	5,000	–	–
Hu Zhanxiong *(Note c)*	–	5,000	–	–
Tian Zhili *(Note c)*	–	5,000	–	–
Teng Suge *(Note c)*	–	5,000	–	–
Total	82,140	110,240	139,607	154,918

Note a: Fellow subsidiaries of Hengtong.

Note b: Shareholder of the Company.

Note c: The balances due to senior management of the Company were unsecured, bore interest at an annual interest rate of 11.502% and had been fully settled during the year ended 31 December 2008.

Except for the balances due to senior management of the Company, the balances due to related parties are unsecured, interest-free and have no fixed terms of repayment.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	5,458	290	165,167	101,610
Less: Pledged deposits for bills payable *(note 19)*	–	–	(30,026)	(30,000)
Cash and cash equivalents	5,458	290	135,141	71,610

The Company's cash and bank balances are all denominated in RMB. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The Company's cash and bank balances amounting to approximately nil, nil, RMB30,026,000 and RMB30,000,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively, were pledged to banks to secure the general banking facilities granted to the Company as disclosed in note 19 below.

19. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	1,219	464	–	–
Bills payable	–	–	60,000	60,000
	1,219	464	60,000	60,000

An aged analysis of the trade and bills payables of the Company as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	133	–	–	–
1 to 2 months	72	–	–	–
2 to 3 months	259	–	–	–
3 to 6 months	755	–	60,000	60,000
6 months to 1 year	–	–	–	–
More than 1 year	–	464	–	–
	1,219	464	60,000	60,000

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

The Company's bills payable were secured by bank balances of approximately nil, nil, RMB30,026,000 and RMB30,000,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively (note 18).

20. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances from customers	246	–	16,019	22,170
Loans from third parties	280	15,480	36,363	94,927
Accruals	110	1,783	15,324	35,156
Interest payables	–	–	1,141	1,396
Others	5	29	130	195
	641	17,292	68,977	153,844

Other payables and accruals are unsecured, non-interest-bearing and have no fixed terms of repayment.

21. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	As at 31 December 2006	2007	2008	As at 30 June 2009
			RMB'000	RMB'000	RMB'000	RMB'000
Current						
Bank loans – secured	13.446	2009	–	–	20,000	20,000
Non-current						
Bank loans – secured	7.722-10.062	2011-2015	–	–	500,000	750,000
			–	–	520,000	770,000

	As at 31 December 2006	2007	2008	As at 30 June 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	–	–	20,000	20,000
In the second year	–	–	–	–
In the third to fifth years, inclusive	–	–	500,000	600,000
Beyond five years	–	–	–	150,000
	–	–	520,000	770,000

All bank loans of the Company are denominated in RMB. The carrying amounts of the Company's bank loans approximate to their fair values for each of the above statements of financial position date.

Certain bank loan of RMB20,000,000 as at 30 June 2009 (31 December 2008: RMB20,000,000) bears interest at the rate of 13.446% per annum, and the maturity date is 1 September 2009. Such bank loan is guaranteed by an independent third party.

Certain bank loan of RMB500,000,000 as at 30 June 2009 (31 December 2008: RMB500,000,000) is subject to the floating interest rate for five-year loans published by the People's Bank of China, and will mature in 2011 to 2013. Such bank loan is guaranteed by related parties, Mr. Zhao Ming and Mr. Hao Shenhai, and is secured by the Company's mining rights (note 12) and the 95% and 5% equity interest's of the Company held by the Shanxi Puhua and Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd., respectively.

Certain bank loan of RMB250,000,000 as at 30 June 2009 (31 December 2008: Nil) is subject to the floating interest rate for six-year loans published by the People's Bank of China, and will mature in 2014 to 2015. Such bank loan is guaranteed by related parties, Mr. Zhao Ming and Mr. Hao Shenhai, and is secured by the Company's mining rights (note 12).

22. SHARE CAPITAL

The registered and paid-up capital of the Company upon its incorporation was RMB60,000,000. On 2 June 2006, the registered and paid-up capital of the Company increased to RMB180,000,000.

23. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Company did not have any significant contingent liabilities.

24. PLEDGE OF ASSETS

Details of the Company's assets pledged for securing bank borrowings and bills payable during the Relevant Periods are disclosed in notes 12, 18, 19 and 21 respectively.

25. COMMITMENTS

The Company had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Within one year	78,022	23,504	287,954	279,471
In the second to fifth years, inclusive	4,994	5,132	–	–
	83,016	28,636	287,954	279,471

26. RELATED PARTY TRANSACTIONS

Transactions with related parties:

(a) Compensation of key management personnel of the Company

	Year ended 31 December			Six-month period ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	83	519	651	344	328
Retirement benefit contributions	16	104	130	69	65
Total compensation paid to key management personnel	99	623	781	413	393

Details of the directors' remuneration are disclosed in note 10.

(b) Balances with related parties and related interest paid

	Year ended 31 December			Six-month period ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest paid on the balance due to senior management	–	2,205	671	671	–

Details of the balances with related parties are disclosed in note 17.

(c) Guarantees and asset pledges

Details of guarantees from related parties and the pledge of assets of related parties for securing the Company's bank loans are disclosed in note 21.

27. FINANCIAL INSTRUMENTS BY CATEGORY

The Company's financial assets include only loans and receivables. The carrying amounts of financial assets as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	2,926	288	1,025	76,080
Financial assets included in prepayments, deposits and other receivables	20	129	81,390	88,546
Due from related parties	184,850	111,350	–	–
Pledged deposits	–	–	30,026	30,000
Cash and cash equivalents	5,458	290	135,141	71,610
	193,254	112,057	247,582	266,236

The carrying amounts of financial liabilities at amortised cost as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	1,219	464	60,000	60,000
Financial liabilities included in other payables and accruals	285	15,509	37,634	96,518
Interest-bearing bank borrowings	–	–	520,000	770,000
Due to related parties	82,140	110,240	139,607	154,918
Other liabilities – non-current	764	764	624	624
	84,408	126,977	757,865	1,082,060

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise interest-bearing bank borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long term interest-bearing bank borrowings with floating interest rates. The terms of repayment of the interest-bearing bank borrowings of the Company are disclosed in note 21.

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit/(loss) before tax and the Company's equity.

	Change in basis interest rate	**Decrease in profit/(loss) before tax**	**Decrease in equity**
		RMB'000	*RMB'000*
Six-month period ended 30 June 2009	10	385	385
Year ended 31 December 2008	10	1,125	1,125
Year ended 31 December 2007	10	–	–
Year ended 31 December 2006	10	–	–
Six-month period ended 30 June 2009	20	770	770
Year ended 31 December 2008	20	2,250	2,250
Year ended 31 December 2007	20	–	–
Year ended 31 December 2006	20	–	–

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and trade finance facilities. The Company's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Company's operations.

The Company's cash and bank balances are placed with reputable financial institutions.

The maturity profile of the Company's financial liabilities at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2006				
	On demand	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	1,219	–	–	1,219
Financial liabilities included in other payables and accruals	280	5	–	–	285
Due to related parties	82,140	–	–	–	82,140
Other liabilities – non-current	–	70	280	630	980
	82,420	1,294	280	630	84,624

	As at 31 December 2007				
	On demand	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	464	–	–	464
Financial liabilities included in other payables and accruals	15,480	29	–	–	15,509
Due to related parties	85,240	25,000	–	–	110,240
Other liabilities – non-current	–	70	280	630	980
	100,720	25,563	280	630	127,193

	As at 31 December 2008				
	On demand	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	60,000	–	–	60,000
Financial liabilities included in other payables and accruals	36,363	1,271	–	–	37,634
Due to related parties	139,607	–	–	–	139,607
Interest-bearing bank borrowings	–	21,793	645,194	–	666,987
Other liabilities – non-current	–	70	280	560	910
	175,970	83,134	645,474	560	905,138

	As at 30 June 2009				
	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	60,000	–	–	60,000
Financial liabilities included in other payables and accruals	94,927	1,591	–	–	96,518
Due to related parties	154,918	–	–	–	154,918
Interest-bearing bank borrowings	–	20,448	742,463	212,056	974,967
Other liabilities – non-current	–	70	280	560	910
	249,845	82,109	742,743	212,616	1,287,313

Credit risk

The Company trades only with recognised and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Company's exposure to bad debts is not significant.

The credit risk of the Company's other financial assets, which comprise cash and cash equivalents, amounts due from related parties, and prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Company trades only with recognised and creditworthy third parties, there is no requirement for collateral.

At the end of each of the Relevant Periods, trade receivables from individual external customers which contributed to over 10% of the Company's total revenue for the Relevant Periods, in aggregate, were:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Number of individual external customers with trade receivables which contributed to over 10% of the Company's total revenue for the year/period	1	2	–	3
Total trade receivables from the above customers	2,926	288	–	57,968
Percentage to total trade receivables for the year/period	100%	100%	–	76%

Save as mentioned in the above table, at the end of each of the Relevant Periods, there was no significant concentration of credit risk.

Foreign currency risk

The Company's business is located in Mainland China and most of the transactions are conducted in RMB. Most of the Company's assets and liabilities are denominated in RMB. Fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on the Company's profit or loss and equity during the Relevant Periods.

Capital management

The primary objective of the Company's capital management is to safeguard the Company'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 Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Company monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt is calculated as the sum of interest-bearing bank borrowings, trade and bills payables, other payables and accruals, amounts due to related parties, less cash and bank balances. Equity represents equity attributable to the equity holders of the Company.

The gearing ratios as at the end of each of the Relevant Periods were as follows:

		As at 31 December		As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	–	–	520,000	770,000
Trade and bills payables	1,219	464	60,000	60,000
Other payables and accruals	641	17,292	68,977	153,844
Due to related parties	82,140	110,240	139,607	154,918
Other liabilities – non-current	764	764	624	624
Less: Cash and bank balances	(5,458)	(290)	(165,167)	(101,610)
Net debt	79,306	128,470	624,041	1,037,776
Equity	172,055	166,115	154,277	174,688
Equity and net debt	251,361	294,585	778,318	1,212,464
Gearing ratio	32%	44%	80%	86%

29. EVENTS AFTER THE REPORTING PERIOD

(i) In September 2009, Shanxi Hengchuang, a subsidiary of Triumph, completed the acquisition of a 99% equity interest in Shanxi Puhua, the Company's holding company, for a consideration of RMB148,500,000. Thereafter, Triumph became the Company's ultimate holding company.

(ii) In September 2009, the Company entered into an agreement with Shanxi Puhua pursuant to which Shanxi Puhua agreed to extend the repayment date of the balance due to it by the Company as at 30 June 2009 to 31 December 2010.

30. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Introduction

The accompanying unaudited pro forma financial information of the Enlarged Group (as defined in this circular), comprising the unaudited pro forma statements of comprehensive income and cash flows of the Enlarged Group for the year ended 31 December 2008 and the unaudited pro forma statement of financial position of the Enlarged Group as at 31 December 2008, has been prepared by the Directors (as defined in this circular) in accordance with rule 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for illustrative purposes only, to provide information about how the Acquisition (as defined in this circular) as detailed in the section headed "Letter from the Board" in this circular might have affected the results of operations, financial position and cash flows of the Group as if the acquisition of 95% equity interests of Hengtai (as defined in this circular) by Shanxi Puhua (as defined in this circular), the PRC Acquisition (as defined in this circular) and the Acquisition had been all completed on 1 January 2008 in respect of the unaudited pro forma statements of comprehensive income and cash flows of the Enlarged Group; and the PRC Acquisition and the Acquisition had all been completed on 31 December 2008 in respect of the unaudited pro forma statement of financial position of the Enlarged Group.

The unaudited pro forma financial information of the Enlarged Group has been prepared based on the audited consolidated statements of comprehensive income and cash flows (formerly known as the "consolidated income statement" and "consolidated cash flow statement", respectively) of the Group for the year ended 31 December 2008 and the audited consolidated statement of financial position (formerly known as the "consolidated balance sheet") of the Group as at 31 December 2008 as set out in Appendix I to this circular and the audited financial information of Triumph Group and Shanxi Puhua Group as set out in the accountants' reports in Appendices II-1 and II-2 to this circular, respectively, after giving effect to the pro forma adjustments described in the accompanying notes. Narrative descriptions of the pro forma adjustments that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are set out in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual results of operations, financial position and cash flows of the Enlarged Group that would have been attained had the proposed Acquisition been completed on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future results of operations, financial position or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the audited financial information of the Group for the year ended 31 December 2008 as set out in Appendix I to this circular and the audited financial information of Triumph Group and Shanxi Puhua Group for the year ended 31 December 2008 as set out in Appendices II-1 and II-2 to this circular, and other financial information included elsewhere in this circular.

Pursuant to the Sale and Purchase Agreement (as defined in this circular), the Company has conditionally agreed to acquire the entire equity interest in Triumph at the consideration of HK$1,855,000,000 (subject to adjustment). Among others, the proposed Acquisition is conditional on the completion of the proposed PRC Acquisition, in which Triumph, in addition to holding 100% equity interests in Shanxi Hengchuang (as defined in this circular) directly, will indirectly own 99% equity interests in Shanxi Puhua and 95% equity interests in Hengtai (collectively the "Target Group").

Pursuant to the Sale and Purchase Agreement, the Consideration (as defined in this circular) will be adjusted by the amount that the total liabilities of the Target Group calculated with reference to the audited Completion Accounts (as defined in this circular) exceeded those disclosed in the Completion Accounts. In preparation of the unaudited pro forma statement of financial position of the Enlarged Group, the adjustment on the Consideration was determined based on the consolidated liabilities of the Target Group as at 31 December 2008, excluding deferred tax liabilities.

In addition, for the purpose of this unaudited pro forma financial information of the Enlarged Group, in the opinion of the Directors, the Target Group's fair value of the assets and liabilities being acquired is subject to changes upon completion of the proposed Acquisition because the fair value of the Target Group's assets and liabilities being acquired shall be assessed on the date of completion. Since this unaudited pro forma financial information of the Enlarged Group is prepared solely for illustrative purposes, the possible changes in fair value of the assets and liabilities of the Target Group being acquired were not reflected in the unaudited pro forma financial information of the Enlarged Group.

2. UNAUDITED PRO FORMA STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

	The Group For the year ended 31 December 2008	Triumph Group For the year ended 31 December 2008		Shanxi Puhua Group For the year ended 31 December 2008		Pro forma combined	Pro forma Adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note (1))	*(Note (2))*	*(Note (2))*	*(Note (3))*	*(Note (3))*				
Continuing operations									
Turnover	627,056	–	–	–	–	627,056			627,056
Cost of sales	(598,245)	–	–	–	–	(598,245)			(598,245)
Gross profit	28,811	–	–	–	–	28,811			28,811
Excess of the acquirer's interest in fair value of acquiree's assets and liabilities over the cost of a business combination	–	–	–	1,459,023	1,648,696	1,648,696			1,648,696
Other income	1,409	36	41	1,489	1,682	3,132	108	*(4)*	3,240
Selling and distribution expenses	(17,835)	–	–	–	–	(17,835)			(17,835)
Administrative expenses	(19,493)	(65)	(73)	(5,971)	(6,748)	(26,314)	(3,315)	*(4)*	(29,629)
Write-down of inventories	(13,349)	–	–	–	–	(13,349)			(13,349)
Impairment	–	–	–	(1,397,925)	(1,579,655)	(1,579,655)			(1,579,655)
Profit/(loss) from operations	(20,457)	(29)	(32)	56,616	63,975	43,486	(3,207)		40,279
Finance costs	–	(15,927)	(17,998)	(56,112)	(63,406)	(81,404)	(758)	*(4)*	(82,162)
Profit/(loss) before tax	(20,457)	(15,956)	(18,030)	504	569	(37,918)	(3,965)		(41,883)
Income tax	–	–	–	349,928	395,420	395,420	495	*(4)*	395,915
Profit/(loss) for the year from continuing operations	(20,457)	(15,956)	(18,030)	350,432	395,989	357,502	(3,470)		354,032
Discontinuing operations									
Loss for the year from discontinued operations	(57,574)	–	–	–	–	(57,574)			(57,574)
Profit/(loss) for the year	(78,031)	(15,956)	(18,030)	350,432	395,989	299,928			296,458
Attributable to:									
Equity holders of the Company									
Continuing operations	(20,457)	(15,956)	(18,030)	403,220	455,639	417,152	(3,296)	*(4)*	409,333
							(4,523)	*(5)*	
Discontinued operations	(57,574)	–	–	–	–	(57,574)			(57,574)
	(78,031)	(15,956)	(18,030)	403,220	455,639	359,578			351,759
Minority interests									
Continuing operations	–	–	–	(52,788)	(59,650)	(59,650)	(174)	*(4)*	(55,301)
							4,523	*(5)*	
Discontinued operations	–	–	–	–	–	–			–
	–	–	–	(52,788)	(59,650)	(59,650)			(55,301)
	(78,031)	(15,956)	(18,030)	350,432	395,989	299,928			296,458

3. UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 31 DECEMBER 2008

	The Group As at 31 December 2008	Triumph Group As at 31 December 2008		Shanxi Puhua Group As at 31 December 2008		Pro forma combined	Pro forma Adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note (1))	*(Note (2))*	*(Note (2))*	*(Note (3))*	*(Note (3))*				
ASSETS									
Non-current assets									
Property, plant and equipment	2,441	–	–	192,800	217,864	220,305			220,305
Intangible assets	–	–	–	1,477,000	1,669,010	1,669,010			1,669,010
Prepayments for fixed assets	–	–	–	389,182	439,776	439,776			439,776
Goodwill	–	–	–	–	–	–	1,319,092	*(6)*	893,369
							(425,723)	*(6)*	
Total non-current assets	2,441	–	–	2,058,982	2,326,650	2,329,091			3,222,460
Current assets									
Inventories	26,387	–	–	18	20	26,407			26,407
Trade receivables	15,248	–	–	1,025	1,158	16,406			16,406
Prepayments, deposits and other receivables	31,407	139,642	157,796	99,555	112,498	301,701	(157,795)	*(10)*	569,629
							425,723	*(6)*	
Due from related parties	30,151	389	439	35,000	39,550	70,140			70,140
Tax recoverable	994	–	–	–	–	994			994
Pledged deposits	–	–	–	75,026	84,779	84,779			84,779
Cash and cash equivalents	84,435	45	51	135,336	152,930	237,416			237,416
Total current assets	188,622	140,076	158,286	345,960	390,935	737,843			1,005,771
Total assets	191,063	140,076	158,286	2,404,942	2,717,585	3,066,934			4,228,231

	The Group As at 31 December 2008	Triumph Group As at 31 December 2008		Shanxi Puhua Group As at 31 December 2008		Pro forma combined	Pro forma Adjustments		Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note (1))	*(Note (2))*	*(Note (2))*	*(Note (3))*	*(Note (3))*				
EQUITY									
Equity attributable to equity holders of the Company									
Issued capital	31,249	389	439	150,000	169,500	201,188	(169,939)	*(8)*	31,249
Reserves	20,806	(29)	(32)	478,681	540,910	561,684	(540,878)	*(8)*	20,806
	52,055	360	407	628,681	710,410	762,872			52,055
Minority interests	–	–	–	59,003	66,673	66,673	7,104	*(7)*	73,777
Total equity	52,055	360	407	687,684	777,083	829,545			125,832
LIABILITIES									
Current liabilities									
Trade and bills payables	31,542	–	–	105,000	118,650	150,192			150,192
Other payables and accruals	12,920	139,651	157,806	749,246	846,648	1,017,374	(157,795)	*(10)*	1,027,384
							167,805	*(7)*	
Due to related parties	94,546	65	73	3,301	3,731	98,350			98,350
Interest-bearing bank borrowings	–	–	–	20,000	22,600	22,600			22,600
Total current liabilities	139,008	139,716	157,879	877,547	991,629	1,288,516			1,298,526
Non-current liabilities									
Deferred tax liabilities	–	–	–	339,087	383,168	383,168			383,168
Interest-bearing bank borrowings	–	–	–	500,000	565,000	565,000			565,000
Convertible notes	–	–	–	–	–	–	1,855,000	*(9)*	1,855,000
Other non-current liabilities	–	–	–	624	705	705			705
Total non-current liabilities	–	–	–	839,711	948,873	948,873			2,803,873
Total liabilities	139,008	139,716	157,879	1,717,258	1,940,502	2,237,389			4,102,399
Total equity and liabilities	191,063	140,076	158,286	2,404,942	2,717,585	3,066,934			4,228,231
Net current assets/(liabilities)	49,614	360	407	(531,587)	(600,694)	(550,673)			(292,755)
Total assets less current liabilities	52,055	360	407	1,527,395	1,725,956	1,778,418			2,929,705

4. UNAUDITED PRO FORMA STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

	The Group For the year ended 31 December 2008	Triumph Group For the year ended 31 December 2008		Shanxi Puhua Group For the year ended 31 December 2008		Pro forma combined	Pro forma adjustments	Notes	Pro Forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note (1))	*(Note (2))*	*(Note (2))*	*(Note (3))*	*(Note (3))*				
Operating activities									
Profit/(loss) before tax									
Continuing operations	(20,457)	(15,956)	(18,030)	504	569	(37,918)	(3,965)	*(4)*	(41,883)
Discontinued operations	(57,574)	–	–	–	–	(57,574)			(57,574)
	(78,031)	(15,956)	(18,030)	504	569	(95,492)			(99,457)
Adjustments for:									
Equity-settled payment expenses	772	–	–	–	–	772			772
Finance costs	448	15,927	17,998	56,112	63,406	81,852	758	*(4)*	82,610
Interest income	(356)	(36)	(41)	(1,223)	(1,382)	(1,779)			(1,779)
Loss/(gain) on disposal of property, plant and equipment	7	–	–	(207)	(234)	(227)			(227)
Depreciation	297	–	–	831	939	1,236			1,236
Impairment of trade receivables	36,368	–	–	–	–	36,368			36,368
Write-down of inventories	13,349	–	–	–	–	13,349			13,349
Pre-acquisition loss before finance costs and income tax	–	–	–	–	–	–	3,207	*(4)*	3,207
Excess of the acquirer's interest in fair value of acquiree's assets and liabilities over the cost of a business combination	–	–	–	(1,459,023)	(1,648,696)	(1,648,696)			(1,648,696)
Impairment	–	–	–	1,397,925	1,579,655	1,579,655			1,579,655
	(27,146)	(65)	(73)	(5,081)	(5,743)	(32,962)			(32,962)
Decrease/(increase) in trade receivables	(4,083)	–	–	474	537	(3,546)			(3,546)
Decrease/(increase) in prepayments, deposits and other receivables	92,720	–	–	(2,475)	(2,797)	89,923			89,923
Decrease in inventories	17,738	–	–	4	5	17,743			17,743
Increase in amounts due from related parties	(30,151)	–	–	–	–	(30,151)			(30,151)
Decrease in trade and bills payables	(30,304)	–	–	(461)	(521)	(30,825)			(30,825)
Increase in amounts due to directors	(1,942)	–	–	–	–	(1,942)			(1,942)
Increase/(decrease) in other payables and accruals	(21,234)	–	–	9,819	11,095	(10,139)			(10,139)
Increase in amounts due to related parties	54,912	–	–	–	–	54,912			54,912
Cash inflow/(outflow) from operations	50,510	(65)	(73)	2,280	2,576	53,013			53,013
Discounting charges paid	(448)	–	–	–	–	(448)			(448)
Income tax paid	(994)	–	–	–	–	(994)			(994)
Net cash inflow/(outflow) from operating activities	49,068	(65)	(73)	2,280	2,576	51,571			51,571

	The Group For the year ended 31 December 2008 HK$'000 (Note (1))	Triumph Group For the year ended 31 December 2008 RMB'000 (Note (2))	HK$'000 (Note (2))	Shanxi Puhua Group For the year ended 31 December 2008 RMB'000 (Note (3))	HK$'000 (Note (3))	Pro forma combined HK$'000	Pro forma adjustments HK$'000	Notes	Pro Forma Enlarged Group HK$'000
Investing activities									
Interest received	356	36	41	1,223	1,382	1,779			1,779
Purchase of items of property, plant and equipment	(1,994)	–	–	(142,326)	(160,828)	(162,822)			(162,822)
Proceeds from disposal of items of property, plant and equipment	–	–	–	207	234	234			234
Acquisition of subsidiary	–	–	–	(562,093)	(635,165)	(635,165)			(635,165)
Increase in prepayments for fixed assets	–	–	–	(142,049)	(160,516)	(160,516)			(160,516)
Increase in prepayments, deposits and other receivables	–	(139,642)	(157,796)	(106,379)	(120,208)	(278,004)			(278,004)
Decrease in pledged deposits	–	–	–	(75,026)	(84,779)	(84,779)			(84,779)
Increase in trade and bills payables	–	–	–	105,000	118,650	118,650			118,650
Net cash outflow from investing activities	(1,638)	(139,606)	(157,755)	(921,443)	(1,041,230)	(1,200,623)			(1,200,623)
Financing activities									
New bank loans	–	–	–	520,000	587,600	587,600			587,600
Increase in issued capital	–	–	–	100,000	113,000	113,000			113,000
Shareholder contribution	–	15,927	17,998	78,657	88,882	106,880			106,880
Interest paid	–	(15,927)	(17,998)	(2,732)	(3,087)	(21,085)			(21,085)
Increase in amounts due to related parties	–	65	73	3,301	3,731	3,804			3,804
Increase in other payables and accruals	–	139,651	157,806	355,272	401,457	559,263			559,263
Net cash inflow from financing activities	–	139,716	157,879	1,054,498	1,191,583	1,349,462			1,349,462
NET INCREASE IN CASH AND CASH EQUIVALENTS	47,430	45	51	135,335	152,929	200,410			200,410
Effect of foreign exchange rate changes	6,663	–	–	–	–	6,663			6,663
	54,093	45	51	135,335	152,929	207,073			207,073
Cash and cash equivalents at beginning of year	30,342	–	–	1	1	30,343			30,343
Cash and cash equivalents at end of year	84,435	45	51	135,336	152,930	237,416			237,416
Analysis of balances of cash and cash equivalents									
Cash and cash equivalents	84,435	45	51	135,336	152,930	237,416			237,416

Notes:

1. The balances are extracted from the audited financial information of the Group for the year ended 31 December 2008 as set out in Section 2 of Appendix I to this circular.

2. The balances are extracted from the audited financial information of Triumph Group as set out in Appendix II-1 to this circular and were translated to Hong Kong dollars at the exchange rate of RMB100 = HK$113.

3. The balances are extracted from the audited financial information of Shanxi Puhua Group as set out in Appendix II-2 to this circular and were translated to Hong Kong dollars at the exchange rate of RMB100 = HK$113.

4. For the purpose of this unaudited pro forma statement of comprehensive income of the Enlarged Group, it is assumed that the acquisition of Hengtai by Shanxi Puhua had been completed on 1 January 2008. Accordingly, adjustments are made to add back the pre-acquisition loss before tax of Hengtai of HK$3,965,000 (pre-acquisition loss after tax: HK$3,470,000) for the period from 1 January to 29 July 2008 (the date when Hengtai was actually acquired by Shanxi Puhua) and the related impact on minority interest of HK$174,000 (5%*HK$3,470,000) in the unaudited pro forma statements of comprehensive income and cash flows of the Enlarged Group. Accordingly, Hengtai's pre-acquisition loss after tax and minority interest added back to Shanxi Puhua Group amounted to HK$3,296,000.

   The effect of goodwill or negative goodwill arising from the Acquisition and the PRC Acquisition has not been taking into account in preparation of this unaudited pro forma statement of comprehensive income.

   However, the historical amount of negative goodwill of HK$1,609,146,000 arising from the acquisition of Hengtai by Shanxi Puhua on the historical acquisition date of 29 July 2008 and recognised in the historical consolidated accounts of Shanxi Puhua Group has been retained in preparation of this unaudited pro forma statement of comprehensive income. In addition, the amount of such negative goodwill has not been adjusted in preparation of this unaudited pro forma statement of comprehensive income because although the Directors has assumed that such acquisition of Hengtai by Shanxi Puhua had been completed on 1 January 2008, the Directors has further assumed that the fair values of individual assets and liabilities of Hengtai as at 1 January 2008 are the same as that of the historical acquisition date of 29 July 2008.

5. For the purpose of the unaudited pro forma statements of comprehensive income and cash flows of the Enlarged Group, it is assumed that the PRC Acquisition had been completed on 1 January 2008. Upon completion of the PRC Acquisition, Shanxi Puhua is held as to 99% by Hengchuang, an adjustment of HK$4,523,000 is made to account for the 1% equity interest held by the minority shareholder of Shanxi Puhua, which is calculated as follows:

	HK$'000
Comprehensive income for the year attributable to equity holders of Shanxi Puhua Group for the year ended 31 December 2008	455,639
Add back: Pre-acquisition loss after tax of Hengtai on the basis that the acquisition had been completed on 1 January 2008, net of related minority interest	(3,296)
Adjusted comprehensive income for the year attributable to equity holders of Shanxi Puhua Group for the year ended 31 December 2008	452,343
Minority interest at 1% thereon	4,523

6. Under Hong Kong Financial Reporting Standard 3 *Business Combinations* issued by the HKICPA, the Group apply the purchase method to account for the acquisition of the Target Group in the consolidated financial statements of the Group, and the individual assets and liabilities of the Target Group acquired by the Group are adjusted to fair values at 31 December 2008 in preparation for the unaudited pro forma statement of financial position of the Enlarged Group.

For the purpose of the unaudited pro forma statement of financial position of the Enlarged Group, the Directors of the Company assumed the fair values of the assets and liabilities of Shanxi Puhua Group as at 31 December 2008 to be their respective carrying values.

The goodwill arising from the Acquisition is calculated as follows:

	HK$'000
Consideration *(note (9))*	1,855,000
Share of fair value of net assets of the Target Group acquired *(note 7 below)*	(535,908)
Goodwill	1,319,092
Consideration adjustment	(425,723)
Adjusted goodwill	893,369

The consideration adjustment represents the reduction in the Consideration arising from the HK$ equivalent of the excess of the consolidated liabilities of the Target Group as at 31 December 2008 (excluding deferred tax liabilities) over RMB1.15 billion to be refunded by the Vendor (as defined in this circular).

7. The interest in fair value of net assets of the Target Group acquired by the Group is calculated as follows:

	HK$'000
Net assets attributable to equity holder of Triumph Group as at 31 December 2008	407
Net assets attributable to equity holders of Shanxi Puhua Group as at 31 December 2008	710,410
Less:	
Interests in net assets of Shanxi Puhua Group as at 31 December 2008 shared by minority shareholder of Shanxi Puhua	(7,104)
Consideration paid to Vendor of Shanxi Puhua by the Target Company pursuant to the PRC Acquisition	(167,805)
The Group's interest in fair value of net assets of the Target Group	535,908

The consideration of HK$167,805,000 (RMB148,500,000) to be paid by the Target Company pursuant to the PRC Acquisition is accrued as other payable in preparation of the unaudited pro forma statement of financial position of the Enlarged Group as at 31 December 2008.

8. The pro forma adjustments of HK$169,939,000 and HK$540,878,000 represent the elimination of share capital and reserves of the Target Group respectively on consolidation.

9. In accordance with the Sale and Purchase Agreement, the Consideration for the proposed Acquisition is HK$1,855,000,000, satisfied by the issuance of the Convertible Notes (as defined in this circular) by the Company. The share conversion feature of such financial instrument constitutes an embedded derivative which requires bifurcation from the host contract under Hong Kong Standard ("HKAS") 39 *Financial Instruments: Recognition and Measurement* issued by HKICPA.

   However, the Directors has adopted the fair value option under HKAS 39 to designate the Convertible Notes to be issued by the Company as financial liabilities at fair value through profit or loss with gains or losses on changes in fair value recognised in the consolidated statement of comprehensive income in the year in which they arise.

   The fair value of the Convertible Notes shall be assessed on the date of issuance and at the end of each reporting periods, for the purpose of this unaudited pro forma financial information of the Enlarged Group, the Directors assumed that the fair value of the Convertible Notes to be its face value of HK$1,855,000,000 as at both 1 January 2008 and 31 December 2008. Accordingly, the unaudited pro forma statements of comprehensive income and cash flows of the Enlarged Group for the year ended 31 December 2008 is prepared by the Directors without taking into account the fair value changes on the Convertible Notes.

   Pursuant to the Sale and Purchase Agreement, the Vendor has granted a Put Option (as defined in this circular) to the Group where the Group can require the Vendor to buy back the entire issued share capital of the Target Company within one year from the Completion Date (as defined in this circular).

   The fair value of the Put Option is to be assessed on the date of grant and to be accounted for as a derivative financial asset in accordance with HKAS 32 *Financial Instruments: Disclosure and Presentation* issued by the HKICPA. Further, subsequent gains or losses on changes in fair value of the Put Option shall be recognised in the statement of comprehensive income of the Company. This unaudited pro forma financial information of the Enlarged Group is prepared by the Directors on the basis without taking into account the fair value of the Put Option and its subsequent change in fair value.

10. The pro forma adjustment of HK$157,795,000 represents the elimination of intercompany balances within the Target Group.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

ERNST & YOUNG
安永

18th Floor
Two International Finance Center
8 Finance Street
Central
Hong Kong

18 November 2009

The Directors
Yun Sky Chemical (International) Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") set out in Section A of Appendix III to the shareholders' circular (the "Circular") of Yun Sky Chemical (International) Holdings Limited (the "Company", together with its subsidiaries, referred to as the "Group") dated 18 November 2009, which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the 100% equity interest in Triumph Fund A Limited (the "Target Company", together with its subsidiaries, referred to as the "Target Group"), might have affected the historical financial information presented therein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed "Introduction" in Section A of Appendix III to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is solely the responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 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 rule 4.29(7) 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 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 rule 4.29(1) of the Listing Rules.

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 provide 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 31 December 2008 had the acquisition of the Target Group actually been completed on that date or any future date; nor

- the results of operations and cash flows of the Group for the year ended 31 December 2008 had the acquisition of the Target Group actually been completed on 1 January 2008 or any future periods.

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 rule 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst Young
Certified Public Accountants

1. STATEMENT OF INDEBTEDNESS

Borrowings

At the close of business on 30 September 2009, being the latest practicable date prior to the printing of this circular for the purpose of this statement of indebtedness, the Enlarged Group (as defined in this circular) had secured bank loans and an other loan of approximately HK$847.5 million and approximately HK$56.5 million, respectively and unsecured other loans of approximately HK$892.8 million.

The secured bank loans and an other loan of the Enlarged Group as at 30 September 2009 are secured by:

(i) mining rights and certain plants and machineries held by the Enlarged Group;

(ii) guarantees given by Mr. Zhao Ming and Mr. Hao Shenhai; and

(iii) 95% and 5% equity interest in Hengtai held by Shanxi Puhua and Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd. respectively.

Contingent liabilities

At the close of business on 30 September 2009, the Enlarged Group did not have any significant contingent liabilities.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, the Enlarged Group did not have, at the close of business on 30 September 2009, other outstanding liabilities or any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, amounts denominated in RMB have been translated into Hong Kong dollars at an exchange rate of RMB100 = HK$113.

2. SUFFICIENCY OF WORKING CAPITAL

As at the Latest Practicable Date, after due and careful enquiry, the Directors are of the opinion that, and after taking into account the present internal financial resources and credit facilities available to the Enlarged Group, the Enlarged Group shall, immediately following the completion of the Acquisition, have sufficient working capital for at least 12 months from the date of this circular.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save for the substantial decline in the Group's turnover as disclosed in the interim report 2009 of the Group set out in Appendix I of this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, being the date to which the latest published audited financial statements of the Group were made up.

4. MANAGEMENT DISCUSSION & ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for the three years ended 31 December 2008 and the six months ended 30 June 2009.

For the six months ended 30 June 2009

Results and Business Review

During the six months ended 30 June 2009, the turnover from continuing operations of the Group has decreased to approximately HK$40,064,000 as compared with approximately HK$321,431,000 for the same period of last year. Overall gross profit decreased from approximately HK$35,749,000 in the same period of last year to approximately HK$875,000. Such decreases were mainly due to decline of phosphorus business during the period as the demand of phosphorus products was weak during the period.

Selling and distribution costs, and administrative expenses were approximately HK$1,922,000 and HK$8,903,000 respectively during the period compared with approximately HK$11,443,000 and HK$6,285,000 respectively for the same period of last year.

Loss from continuing operations was approximately HK$771,000 during the period compared with a net profit from continuing operations of approximately HK$19.5 million for the same period of last year.

Future Outlook

Following the downward trend in the second half of 2008, the demand of phosphorus products continued to be weak in early 2009. The market had encountered a short term rebound after the Chinese New Year and the Group captured a bulk order of over 2,000 tons. Then the market turned to stagnant again. Facing such unfavourable market and economic situation, the Group will continue to be very cautious and to monitor the market closely so as to take any possible business opportunities during such difficult times.

Regarding the trading of optical products, due to the global economic slowdown, the demand of optical products also decreased. As the retail market shows signs of picking up again, the Group believes the trading of optical products will become profitable in the second half of year 2009.

The Group will continue to initiate and commence new business activities and to identify suitable projects and investment opportunities for possible diversification.

Segmental Information

The Group is mainly engaged in the manufacture and sales of phosphorus products and trading of optical products. Optical products contributed the majority of the Group's total revenue for the six months ended 30 June 2009, around 79% of the Group's total revenue. 98% of the Group's products were sold to East Asia and the rest to Mainland PRC.

Capital Structure

As at 30 June 2009, the Group has no treasury policies.

For the relevant period, there're no borrowings and the Group holds cash and cash equivalent of HK$82,817,000.

During the current period, the Group conducts its business transactions predominately in Chinese Renminbi and to a lesser extent US dollars. The Board is of the view that there is no material currency mismatch in assets and liabilities hence minimize exchange risks. The Group does not arrange any forward currency contracts for hedging purposes.

Liquidity and Financial Review

The Group mainly finances its day-to-day operations with internally generated cash flow. As at 30 June 2009, the current ratio of the Group, measured as total current assets to total current liabilities, was approximately 168.41% (compared with 137.45% as at 31 December 2008) and the Group has no long term liability as at 30 June 2009.

During the period, the Group recorded a net cash used in operations of approximately HK$37.5 million.

The gearing of the Group, measured as total debts to total assets, was approximately 59.38% as at 30 June 2009, comparing to that of approximately 72.76% as at 31 December 2008.

Significant Investments, Material Acquisitions and Disposals

During the period, there were no material change on the investment held and also no material acquisition or disposal of any subsidiary and associate of the Group.

Capital Commitment, Charge on Group Assets and Continent Liabilities

As at 30 June 2009 and 2008, the Group had no capital commitments. The Group had an operating lease commitments amounted to approximately HK$1.44 million as at 30 June 2009 compared to that of approximately HK$2.22 million as at 31 December 2008.

As at 30 June 2009, the Group had no charge on the Group's assets (31 December 2008: Nil).

As at 30 June 2009, the Group had no material contingent liabilities (31 December 2008: Nil).

Human Resources and Share Option Scheme

As at 30 June 2009, the Group had 561 employees. The Group's remuneration policy is primarily based on the individual performance and experience of employees, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending on the overall performance of the Group. The Group also provides appropriate training programmes for benefits to employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 30 June 2009, the total outstanding share options amounted to 12,320,000 shares held by an employee. No share option was exercised during the period. The staff cost in the relevant period was HK$6,617,599.

For the year ended 31 December 2008

Results and Business Review

Continuing operations

The Group recorded a total turnover of approximately HK$627.1 million (2007: HK$373.0 million) for its continuing operational business representing an increase of approximately 68.1% compared with last year. The increase was mainly in the first half of year 2008. However, the financial tsunami had caused the decrease in demand for phosphorus products in second half of the year that affected the profitability of the phosphorus business.

Overall gross profit margin decreased from approximately HK$109.0 million last year to approximately HK$28.8 million representing a decrease of approximately 73.6%. Such decrease was primarily due to the significantly increase in the raw materials costs as compared with last year.

Selling and distribution costs, and administrative expenses were approximately HK$17.8 million and HK$19.5 million respectively during the year compared with approximately HK$12.0 million and HK$14.2 million respectively for last year. An amount of approximately HK$13.3 million was also written down for the slow moving inventories.

Loss from the continuing operations was approximately HK$20.5 million during the year compared with a net profit of approximately HK$84.7 million last year.

Discontinued operations

On 11 September 2008, the Group entered into a leasing termination agreement pursuant to which the Group terminated the PVC leasing agreement with effect from 31 October 2008. Further details were set out in the Company's circular dated 8 October 2008.

The PVC business has recorded a total turnover of approximately HK$191.7 million (2007: HK$94.0 million). Selling and distribution costs and administrative expenses were approximately HK$11.1 million and HK$8.5 million respectively for the year. Impairment on trade receivables amounted to HK$36.4 million was also provided. Finance costs amounted to approximately HK$448,000 representing the interest on discounted bills.

The PVC business recorded an operating loss of approximately HK$57.6 million (2007: profit HK$19.6 million).

Future Outlook

There is the massive increase in stock for each kind of phosphorus chemical products in China and it is estimated that there are over 250,000 tonnages of yellow phosphorus in China being piling up. In view of the fact that the extremely weak market demand currently, the market will probably take more than 6 months to consume such a large quantity of stock. During such period, due to the pressure of funding onto the market players, the price is expected to go down irrationally, thus resulting in increasing operational loss and eventually the decision to suspense production. All of the above will probably severely impair the entire phosphorus chemical industry future development.

Coupling of the upsurge of market prices in early 2008, the financial crisis in late 2008 has created even worse impact to the whole phosphorus chemical industry. In the weakening economic situation, the demand for phosphorus chemical products will remain low and thus it is expected that the overall market situation will not improve in year 2009.

Although the China government has decided to reduce the special customs duty for yellow phosphorus to 75% starting from December 2008, the effect of reducing the export cost will somehow offset by the persistent decrease in market price in international phosphorus ore and coke, and thus our phosphorus chemical business is still in the obvious inferiority in the international market.

Following the global slide in the market price of phosphorus ore and sulphur ore, the production cost of phosphoric acid using the thermal methods by the overseas competitors can be further reduced. However, since the Company is using wet process production methodology, the Company cannot benefit from the cost reduction and thus making the Company less competitive as compared with our overseas competitors using the thermal methods. It will remain a challenging year of our export business in phosphoric chemical section.

Facing such unfavourable market and economic situation, the Company will be very cautious and continue to monitor the overall market situation closely. Apart from starting of the trading of optical products in late 2008, the Company will continue to initiate and commence new business activities and to identify suitable projects and investment opportunities for possible diversifications.

Capital Structure

As at 31 December 2008, the Group has no treasury policies.

For the relevant period, there're no borrowings and the Group holds cash and cash equivalent of HK$84,435,000.

During the current period, the Group conducted its business transactions mainly in Renminbi, US dollars, and Hong Kong dollars. The Group did no arrange any forward currency contracts for hedging purposes. The group's has no financial borrowings and long term liabilities as at 31 December 2008.

Liquidity and Financial Review

The Group mainly financed its day to day operations by internally generated cash flow. As at 31 December 2008, the current ratio of the Group, measured as total current assets to total current liabilities, was 1.36:1 compared with 1.89:1 for the same time last year.

During the year, the Group recorded a net cash generated from its operating activities of approximately HK$49.1 million.

Gearing Ratio

The gearing ratio of the Group, measured as total debts to total assets, was 72.76% as at 31 December 2008, as compared to 52.87% as at 31 December 2007.

Corporate Moves

On 6 May 2008, Sinogreat Limited ("Sinogreat") entered into the sale and purchase agreement with China Time Investment Holdings Limited to acquire 1,675,215,498 shares for a consideration of HK$70,000,000. Therefore, Sinogreat was required under the Takeovers Code to make a mandatory general cash offer to acquire all the issued shares not already owned or agreed to be acquired by Sinogreat or parties acting in concert with it. The offer closed on 24 June 2008.

On 11 September 2008, a subsidiary of the Company entered into the PVC Leasing Termination Agreement with a connected party to terminate the PVC Leasing Agreement (details of the PVC Leasing Agreement were set out in the circular of the Company dated 8 August 2007), which constituted as the major and connected transaction. Details were set out in the circular of the Company dated 8 October 2008. Upon the PVC Leasing Termination Agreement becoming effective on 31 October 2008, the Group ceased its production of PVC and PVC related products.

Various agreements relating to the business of manufacturing of phosphorus products were expired on 31 December 2008.

Significant Investments, Material Acquisitions and Disposals

During the year, the management has decided to terminate the PVC business.

Save as disclosed above, there was no other material change on the investment held and also no other material acquisition or disposal of any subsidiary and associate of the Group during the year.

Capital Commitment, Charge on Group Assets and Contingent Liabilities

As at 31 December 2008, the Group had no capital commitment.

As at 31 December 2008, there was no charge on the Group's assets and no material contingent liability.

Human Resources and Share Option Scheme

As at 31 December 2008, the Group had 628 employees. The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for benefits to employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 31 December 2008, total share options outstanding amounted to 12,320,000 shares held by an employee. No share option was exercised during the year. The staff cost of the relevant period was HK$27,619,000.

For the year ended 31 December 2007

Results and Business Review

Continuing Chemical operations

The Group recorded a total turnover of approximately HK$467.0 million for its continuing operations chemical business representing a substantial increase of approximately 290.6% compared with last year. The increase is primarily due to the introduction of the new businesses of yellow phosphorus and PVC during the year together with the fact that the Group's phosphoric acid business has shown a full year's operation compared with half year's operation when it was firstly launched in the middle of 2006. As a result, the PRC domestic sales network was substantially extended during the year.

Gross profit has increased substantially from approximately HK$29.1 million last year to approximately HK$134.3 million representing an increase of approximately 361.5%. Overall gross profit margin was approximately 28.7% compared with approximately 24.3% last year. Such increase is primarily due to the fact that the Group has shifted its emphasis to the more profitable PRC domestic markets especially in the sale of phosphoric acid.

Selling and distribution costs, and administrative expenses were approximately HK$15.2 million and HK$17.5 million respectively during the year compared with approximately HK$7.1 million and HK$8.6 million respectively for last year.

Profit for the year from the chemical operations was approximately HK$104.2 million during the year compared with a net profit of approximately HK$15.1 million last year for same reasons illustrated above representing an increase of approximately 591.1%.

Discontinued Optical operations

On 30 November 2007, the Group has discontinued its optical business by disposing all its 70% equity interest for a nominal value of HK$1 in Profitown Investment Corporation ("Profitown") and indirectly Profitown's subsidiaries (collectively the "Profitown Group"). During the year and prior to the date of disposal, Probest Holdings Inc. ("Probest"), the 30% minority shareholder of Profitown, waived approximately HK$23.2 million of the interest payable by the Profitown Group to Probest. The net tangible asset value of Profitown Group became zero upon the disposal on 30 November 2007. The Group recorded a loss on disposal of approximately HK$8.0 million. Details and reasons of the disposal are set out in the Company's circular dated 28 November 2007.

The Profitown Group was making loss for some time. For the eleven-month period ended 30 November 2007, the Profitown Group has recorded a total turnover of approximately HK$114.8 million with a gross profit of approximately HK$16.6 million. Selling, administrative expenses and other operating expenses were approximately HK$9.5 million, HK$6.2 million and HK$2.4 million respectively for the same period. Finance costs amounting to approximately HK$12.3 million represented the interest on promissory note and the loan due to Probest.

The shared profit before tax from the Profitown Group's 50 percent-owned associate, Dongguan Yueheng Optical Company Limited, for the period was approximately HK$6.9 million.

The Profitown Group recorded an operating loss of approximately HK$2.4 million before waiver of accrued interests of HK$23.2 million by Probest. Overall profit for the year from discontinued optical operations amounted to approximately HK$12.8 million compared with a loss of approximately HK$29.6 million last year.

Upon completion of the disposal of Profitown Group, the manufacturing and sale of optical business of Group was discontinued.

Future Outlook

Further to the introduction of the new chemical business in recent years, the Group has successfully built up a solid platform for its current operations. These projects provide the Group both vertically and horizontally integrated structures to enhance profitability and valuable experience in the operation of the chemical sectors.

Since the beginning of 2007, in the environment of a weak US dollar, the world's mineral prices rose rapidly. The Group foresees these latest market developments will continue in the near future. In order to maintain profit margins and to ascertain the abundant supply of raw materials, the Group has developed various strategies maintaining good working relationships with both its suppliers and customers. Emphasis will be put in both quality control and customer services. The Group will also closely monitor the latest developments of the chemical sector and continue to be proactive in optimising its product mix to maximise its profits.

In order to increase its market share in the chemical sector, the Group will continue to strengthen and expand its existing sales team. The expanded sales team will be responsible for soliciting new customers and maintaining relationships with existing customers in both domestic and international markets.

The Board, with its experience in the chemical industry together with the Group's existing platform, will continue to identify suitable projects and investment opportunities for possible diversifications along the line of the chemical segment and consolidate its operation platform.

Capital Structure

As at 31 December 2007, the Group has no treasury policies.

For the relevant period, there're no borrowings and the Group holds cash and cash equivalent of HK$30,342,000.

During the current period, the Group conducted its business transactions mainly in Renminbi, US dollars, and Hong Kong dollars. The Group did no arrange any forward currency contracts for hedging purposes. The group's has no financial borrowings and long term liabilities as at 31 December 2007.

Liquidity and Financial Review

The Group mainly finances its day to day operations with internally generated cash flow. As at 31 December 2007, the current ratio of the Group, measured as total current assets to total current liabilities, was 1.89:1 compared with 0.67:1 for the same time last year showing a substantial improvement.

During the year, the Group recorded a net cash inflow generated from its operating activities of approximately HK$34.7 million.

Gearing Ratio

The gearing of the Group, measured as total debts to total assets, was 52.87% as at 31 December 2007, as compared to 103.85% as at 31 December 2006.

Corporate Transactions

Continuing connected transactions

On 9 July 2007, the Group entered into several conditional agreements with its connected party primarily enabling the Group to commence its businesses in the manufacturing of PVC and PVC's related products. These agreements were subsequently approved by the shareholders of the Company in an extraordinary general meeting held on 23 August 2007. These agreements are summarised as follows:–

(i) the Yunnan Factories Coal Supply Agreement enabling the Group to purchase coal for its power generation for its operations. The agreement will expire on 31 December 2008.

(ii) the Phosphorus Ancillary Materials Procurement Agreement enabling the Group to purchase ancillary materials for repairing and maintaining production facilities for its phosphorus operations. The agreement will expire on 31 December 2008.

(iii) the PVC Ancillary Materials Procurement Agreement enabling the Group to purchase ancillary materials for repairing and maintaining production facilities for its PVC operations. The agreement will expire on 31 December 2009.

(iv) the PVC Leasing Agreement where the Group leases certain premises including PVC production factory and ancillary structures and the machinery and equipment located in these premises in Yunnan. The lease will expire on 31 December 2009. The Group commenced its PVC business in November 2007.

(v) the PVC Distribution Agreement where the Group engages its connected party as a distributor for the sale of sodium tripolyphosphate, a PVC related product. The agreement will expire on 31 December 2008.

For further details of the above transactions, please refer to the Company's announcement dated 9 July 2007 and the Company's circular dated 8 August 2007.

Connected and major transaction

On 2 November 2007, the Company and Asset Up Limited ("Asset Up") entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Asset Up agreed to purchase 70% equity interest in Profitown and indirectly its subsidiaries at a nominal consideration of HK$1.0 in cash by exercising the Put Option under the Shareholders' Agreement made between the Company, Probest and Tomorrow International Holdings Limited dated 3 June 2005. The disposal was completed on 30 November 2007. Upon completion of the disposal, a guarantee given by the Company in favour of Probest ceased to be effective and the Group discontinued its optical business operations.

For further details of the above transactions, please refer to the Company's announcement dated 7 November 2007 and the Company's circular dated 28 November 2007.

Change of company name

On 7 November 2007, the Company announced that the Board proposed to change the name of the Company from "Swank International Manufacturing Co., Ltd." in English and "恒光行實業有限公司" in Chinese to "Yun Sky Chemical (International) Holdings Limited " in English and " 南嶺化工(國際)控股有限公司" in Chinese.

The proposed change of name of the Company became effective on 2 January 2008 after to (i) the approval by the shareholders of the Company by way of a special resolution at the EGM convened on 20 December 2007; (ii) the new name is entered on the register of companies by the Registrar of Companies in Hong Kong; and (iii) the issuance of a Certificate of Registration of Change of Name by the Registrar of Companies in Hong Kong on 2 January 2008.

For further details of the above transactions, please refer to the Company's announcement dated 7 November 2007 and the Company's circular dated 28 November 2007.

Significant Investments, Material Acquisitions and Disposals

As mentioned above in the section "Corporate Transactions", the Company and Asset Up entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Asset Up agreed to purchase 70% equity interest in Profitown and indirectly its subsidiaries at a nominal consideration of HK$1.0 in cash by exercising the Put Option under the Shareholders' Agreement of Profitown made between the Company, Probest and Tomorrow International Holdings Limited dated 3 June 2005. At the date of disposal, Profitown Group had a net asset of zero.

The disposal was completed on 30 November 2007.

Save as disclosed above, there was no other material change on the investment held and also no other material acquisition or disposal of any subsidiary and associate of the Group during the year.

Capital Commitment, Charge on Group Assets and Contingent Liabilities

As at 31 December 2007, the Group had a capital commitment of approximately HK$1.7 million relating to the outstanding contracted for constructing new plant and machinery for the production of liquid crystal grade phosphoric acid.

As at 31 December 2007, there was no charge on the Group's assets and no material contingent liability.

Human Resources and Share Option Scheme

As at 31 December 2007, the Group had 1,604 employees. The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for benefits to employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 31 December 2007, total share options outstanding amounted to 10,000,000 shares held by an employee. No share option was exercised during the year. The staff costs in the relevant period was HK$15,080,000.

For the year ended 31 December 2006

Results and Business Review

The Group recorded a turnover of approximately HK$115.6 million for its optical business and approximately HK$119.6 million for its newly introduced phosphorus business. In aggregate, total turnover was approximately HK$235.2 representing an increase of 60.02% compared with last year. The gross profit margin were approximately 11.2% compared with approximately 4.2% last year. This is primarily due to the introduction of the phosphorus business during the year. Loss after minority interests were approximately HK$5.6 million during the year compared with a gain of approximately HK$45.9 million in last year. This is primarily due to the absence of a non-recurred income amounted to approximately HK$67.7 million related to an exceptional gain due to a waiver of debt and accrued interest from a shareholder, Probest Holdings Inc. ("Probest") and the consolidation costs of the two manufacturing plants for the optical business production into one in the Dongguan production centre.

Optical business

Sales orders for the current year aggregated to approximately HK$119.6 million, versus last year of HK$144.8 million. Selling and administrative expenses decreased from approximately HK$27.3 million in 2005 to HK$23.8 million this year. Other operating expenses have increased by approximately HK$12.6 million mainly due to the increase in retrenchment costs and the provision for impairment for certain property, plant and equipment. Finance costs in 2006 represented the interest on promissory note and the loan due to Probest. Income of an exceptional nature also included approximately HK$ 3.6 million earned from gain on disposal of a subsidiary's land use rights and buildings.

The shared profit before tax from the Group's associates was approximately HK$20.3 million, versus approximately HK$8.3 million recorded last year.

Phosphorus business

During the year, the Group successfully launched its sale and manufacturing businesses in phosphoric acid in July 2006. Sales orders for the current year totaled approximately HK$119.6 million and sales networks of the Group successfully extended into the East Asia region. Selling and administrative expenses were approximately HK$8.2 million during the year.

Future Outlook

Optical business

Following the consolidation of the two manufacturing plants into one in the Dongguan production centre, the Group is laying a solid foundation for a well-aligned and re-energized factory with manufacturing capabilities in metal, plastic hand-made and plastic injection molded frames. The Group expects such unification will give the management a renewed focus with a clear direction, also enhance inter-production plants effectiveness and cost efficiency and boost loyalty amongst the staff.

The Group will focus to provide one-stop services to its key customers and at the same time improve our ability to produce high-end optical products. There are encouraging signs as several sizeable brands distributors have begun new product development with the Group, in addition that the Group is already the manufacturing partners of some of most popular brands in the optical industry, which further reinforces the Group's industry positioning.

Phosphorus business

Further to the introduction of the agency services business in 2005 in relation to the sale of chemicals including phosphorus and other related materials, the Group successfully launched its new manufacturing and sale businesses of phosphoric acid and yellow phosphorus in the second half of 2006 and the beginning of 2007 respectively. These new projects enable the Group to build up a solid platform to gain further experience in operating and managing chemical business and to provide the Group a vertically integrated structure for its phosphorus products manufacturing business to enhance profitability.

In the light of the growing economy and rich phosphorus resources in the PRC in recent years, the Group is optimistic about the future of its phosphorus related chemical industry segments. The Group will further strengthen and expand its existing sales team for its phosphorus products. The expanded sales team will be responsible for soliciting new customers and maintaining relationships with existing customers in both domestic and international markets. This will enable the Group to further extend its existing sales networks. In order to satisfy the increasing demand of its products, the Group is also looking for opportunities to expand its existing production capacity. These expansions may be funded by internal resources of the Group or such other means to be determined by the management. Given the fact that the Board possesses considerable expertise in international trade and in light of the extensive application of yellow phosphorus, the Board is confident that the Group will gradually establish its presence in the phosphorus related chemical industrial segments to further broaden its income base and enhance profitability.

The Board, with its experience in the chemical industry together with the Group's existing platform, will continue identifying opportunities to further develop its business into other phosphorus and phosphorus related chemical industry segments in the PRC. In particular, the Group is contemplating to further diversifying into the business of the manufacturing and sale of PVC in the PRC. In order to achieve this, feasibility studies are undertaken to study the PRC domestic PVC markets, the production logistics as well as the suitable sources of funding.

Capital Structure

As at 31 December 2006, the Group has no treasury policies.

For the relevant period, there're no borrowings and the Group holds cash and cash equivalent of HK$37,395,000.

During the current period, the Group conducted its business transactions mainly in Renminbi, US dollars, and Hong Kong dollars. The Group did no arrange any forward currency contracts for hedging purposes. The group's has no financial borrowings and long term liabilities as at 31 December 2006.

Liquidity and Financial Review

The Group mainly finances its day to day operations with internally generated cash flow. As at 31 December 2006, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.67:1.

During the year, the Group recorded a cash outflow from operations of HK$14.6 million. The Group also recorded an amount of HK$8 million dividend received from associates and an amount of HK$28 million for the cash consideration in relating to the disposal of a subsidiary's land use rights and buildings. As at 31 December 2006, the Group recorded an aggregate amount of approximately HK$180.91 million due to Probest. Out of which, the principal amount of the promissory note amounted HK$112.2 million and the accrued interest of approximately HK$15.1 million due to Probest have been due. The Group is now negotiating with Probest about the possibilities of extension in repayment of such due principal and accrued interest of the promissory note. In addition, the Group is also considering other means to improve its overall liquidity and financial situations.

The Group conducts its business transactions mainly in Hong Kong dollars, US dollars, Euros and Renminbi. The Group did not arrange any forward currency contracts for hedging purposes. Whilst most of the Group's cash is denominated in currencies directly and indirectly linked to the US dollars, the exposure to exchange fluctuation in gains and losses is minimal. The Group's promissory note and a loan due to Probest bear interest at a rate equivalent to 1% over Hong Kong prime rate per annum. The Group's borrowings are mainly denominated in Hong Kong dollars.

Gearing Ratio

The gearing of the Group, measured as total debts to total assets, was 103.85% as at 31 December 2006, as compared to 93.5% as at 31 December 2005.

Corporate Transactions

On 11 May 2006, the Group entered into several conditional agreements enabling the Group to commence its businesses in the manufacturing of, inter alia, phosphoric acid and yellow phosphorus. These agreements were subsequently approved by the shareholders of the Company in an extraordinary general meeting held on 19 June 2006. These agreements are summarised as follows:–

(i) the Guangxi Leasing agreement where the Group leases certain premises including production factory, its ancillary structures and the machinery and equipment located in these premises in Guangxi. Subject to renewal, the lease will expire on 31 December 2008. The Group commenced its phosphoric acid business in July 2006.

(ii) the Guangxi Agency agreement where the Group engages an selling agent for its phosphoric acid. Subject to renewal, the agreement will expire on 31 December 2008.

(iii) the Guangxi Raw Materials Purchase Agreement where the Group engages a company or its associate(s) to supply yellow phosphorus for its production of phosphoric acid. Subject to renewal, the agreement will expire on 31 December 2008.

(iv) the Guangxi Distribution Agreement where the Group engages a distributor to distribute its phosphoric acid products. Subject to renewal, the agreement will expire on 31 December 2008.

(v) the Yunnan Leasing agreement where the Group leases certain premises including production factory, its ancillary structures and the machinery and equipment located in these premises in Yunnan. Subject to renewal, the lease will expire on 31 December 2008.

For further details of the above transactions, please refer to the announcement dated 11 May 2006 and the circular dated 2 June 2006.

On 2 June 2006, the Group disposed certain land and buildings located in Shenzhen beneficially owned by an indirect subsidiary of the Company in the form of a Sino-Foreign Joint Venture ("the Joint Venture") due to a land requisition and compensation exercise in the region.

Further to the entering of this requisition and compensation agreement, the Group entered into a winding-up agreement on 2 June 2006 pursuant to which the operation of the Joint Venture will cease and the winding-up procedures will commence after 18 months from the date of signing of the agreement. On 2 June 2006 the Group, and the Sino party of the Joint Venture also entered into an indemnity agreement pursuant to which the Group will indemnify any loss caused to the Sino party up to an amount of RMB9.5 million in case any creditors of the Joint Venture call in any liabilities during the period up to the completion of the wind-up procedures of the Joint Venture.

For further details of the above transactions, please refer to the announcement dated 5 June 2006.

Significant Investments, Material Acquisitions and Disposals

As mentioned above in the section "Corporate Transactions", the Group disposed two parcels of land use rights and buildings of Shenzhen Heng Gang Swank Optical Industries Co. Ltd ("Henggang") during the year, an indirect non-wholly owned subsidiary of the Company due to a land requisition and compensation exercise in Shenzhen. The compensation of this requisition and compensation exercise was approximately HK$28.0 million in total, of which HK$9.0 million was distributed to 19.27% minority shareholder of Henggang.

Save as disclosed above, there was no other material change on the investment held and also no other material acquisition or disposal of any subsidiary and associate of the Group during the year.

Capital Commitment, Charge on Group Assets and Contingent Liabilities

As at 31 December 2006, the Group had no material capital commitment and no charge on the Group's assets.

As at 31 December 2006, the Company has contingent liabilities amounted to approximately HK$15 million due to a guarantee issued by the Company to a shareholder in 2005 in respect of the due interest payment payable by a subsidiary. The Group has fully provided for such amount.

Details of contingent liabilities of the Group are set out in note 37 to the financial statements.

Human Resources and Share Option Scheme

As at 31 December 2006, the Group had 1,808 employees. The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for benefits to employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 31 December 2006, total number of share options outstanding amounted to 10,000,000 were held by an employee. No share option was exercised during the year. The staff cost in the relevant period was HK$4,452,000.

5. MANAGEMENT DISCUSSION & ANALYSIS OF THE TARGET GROUP

As set out in Appendix II in this circular, the Target Group comprises the Target Company, Shanxi Hengchuang, Shanxi Puhua, and Hengtai

(a) Management discussion and analysis of the Target Company and Shanxi Hengchuang, together as the "Triumph Group"

Set out below is the management discussion and analysis on the Triumph Group for the period from 23 June 2006 (date of incorporation) to 31 December 2007, for the year ended 31 December 2008, and for the six months period ended 30 June 2009:

(i) Business review of the Triumph Group, for the six months period ended 30 June 2009

Business review and prospect

The Target Company is an investment holding company and was inactive for the period from 23 June 2006 to 30 June 2009. Save and except establishing and holding 99% equity interest in Shanxi Puhua, Shanxi Hengchuang has not commenced business since the date of incorporation on 31 March 2008.

Capital structure, liquidity, financial resources and gearing ratio

The Triumph Group recorded RMB140,076,000 as the total assets as at 30 June 2009. As at the same date, the total liabilities of the Triumph Group was approximately RMB139,727,000. The Triumph Group's gearing ratios, representing the total liabilities divided by total assets, was 99.8% as at 30 June 2009. There was RMB45,000 cash and cash equivalent. The liabilities were due to a third party and were unsecured, interest-free and have no fixed terms of repayment

As at 30 June 2009, the Triumph Group has no bank borrowings.

Capital commitment

In May 2008, Triumph Group agreed to acquire 99% equity interest in Shanxi Puhua for a consideration of RMB26,133,000 and payment of liabilities of RMB113,867,000, and pursuant to 2 agreements dated on 23 September 2009, which superseded the agreement in May 2008, the consideration for acquisition of above equity interest was revised to RMB148,500,000. The acquisition has been completed in September 2009.

Treasury policies

The Triumph Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the period under review.

Pledge of Assets

The Triumph Group did not pledge any assets for the period under review.

Exposure to Exchange Rate Fluctuations

The Triumph Group had no exchange rate exposure.

Employee Information

As at 30 June 2009, other than the acquisition of 99% equity interest in Shanxi Puhua, which has been completed in September 2009, the Triumph Group did not employ any employees. No remuneration was payable by the Triumph Group to its directors for the period under review.

Acquisitions, Disposal and Significant Investments

The Triumph Group did not have any acquisitions, disposal and significant investments for the period under review

Details of Future Plans for Material Investment or Capital Assets

As at 30 June 2009, the Triumph Group did not have any future plans for material investment or capital assets.

Segmental information

Triumph Group has not commenced any business since its incorporation, and therefore, has no separable operating segment. Since no current and non-current assets and liabilities of Triumph Group are located outside the PRC, no geographical segment information is presented.

Contingent liabilities

The Triumph Group did not have significant contingent liabilities as at 30 June 2009.

(ii) *Business review of the Triumph Group, for year ended 31 December 2008*

Business review and prospect

The Target Company is an investment holding company and was inactive since its incorporation. Save and except acquiring and holding 99% equity interest in Shanxi Puhua, Shanxi Hengchuang has not commenced business since the date of incorporation on 31 March 2008.

Capital structure, liquidity, financial resources and gearing ratio

The Target Company and Shanxi Hengchuang, together as the "Triumph Group", recorded RMB140,076,000 as the total assets as at 31 December 2008. For the corresponding periods, the total liabilities of the Triumph Group was approximately RMB139,716,000. The Triumph Group's gearing ratios, representing the total liabilities divided by total assets, was 99.7% as at 31 December 2008. There was RMB45,000 cash and cash equivalent. The liabilities were due to a third party and were unsecured, interest-free and have no fixed terms of repayment.

As at 31 December 2008, the Triumph Group has no bank borrowings.

Capital commitment

In May 2008, Triumph Group agreed to acquire 99% equity interest in Shanxi Puhua for a consideration of RMB26,133,000 and payment of liabilities of RMB113,867,000, and pursuant to 2 agreements dated on 23 September 2009 which superseded the agreement in May 2008, the consideration for acquisition of above equity interest was revised to RMB148,500,000. The acquisition has been completed in September 2009.

Treasury policies

The Triumph Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the period under review.

Pledge of Assets

The Triumph Group did not pledge any assets for the period under review.

Exposure to Exchange Rate Fluctuations

The Triumph Group had no exchange rate exposure.

Employee Information

As at 31 December 2008, the Triumph Group did not employ any employees. No remuneration was payable by the Triumph Group to its directors for the period under review.

Acquisitions, Disposal and Significant Investments

The Triumph Group did not have any acquisitions, disposal and significant investments for the period under review.

Details of Future Plans for Material Investment or Capital Assets

As at 31 December 2008, the Triumph Group did not have any future plans for material investment or capital assets.

Segmental information

Triumph Group has not commenced any business since its incorporation, and therefore, has no separable operating segment. Since no current and non-current assets and liabilities of Triumph Group are located outside the PRC, no geographical segment information is presented.

Contingent liabilities

The Triumph Group did not have significant contingent liabilities as at 31 December 2008.

(iii) Business review of the The Target Company, for the period from 23 June 2006 to 31 December 2007

Business review and prospect

The Target Company is an investment holding company and was inactive since its incorporation.

Capital structure, liquidity, financial resources and gearing ratio

The Target Company recorded RMB389,000 as the total assets for the period from 23 June 2006 to 31 December 2007, the total liabilities of the Triumph Group was approximately RMBnil. The Triumph Group's gearing ratios, representing the total liabilities divided by total assets, was not applicable under the relevant period. There was no cash and cash equivalent.

As at 31 December 2007, the Triumph Group has no bank borrowings.

Capital commitment

In the relevant period, there was no capital commitment.

Treasury policies

The Target Company had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the period under review.

Pledge of Assets

The Target Company did not pledge any assets for the period under review.

Exposure to Exchange Rate Fluctuations

The Target Company had no exchange rate exposure.

Employee Information

For the period under review, the Triumph Group did not employ any employees. No remuneration was payable by the Triumph Group to its directors for the period under review.

Acquisitions, Disposal and Significant Investments

The Triumph Group did not have any acquisitions, disposal and significant investments for the period under review.

Details of Future Plans for Material Investment or Capital Assets

As at 31 December 2007, the Triumph Group did not have any future plans for material investment or capital assets.

Segmental information

Triumph Group has not commenced any business since its incorporation, and therefore, has no separable operating segment. Since no current and non-current assets and liabilities of Triumph Group are located outside the PRC, no geographical segment information is presented.

Contingent liabilities

The Triumph Group did not have significant contingent liabilities as at 31 December 2007.

(b) Management discussion and analysis of Shanxi Puhua and Hengtai, together as the "Shanxi Puhua Group"

Set out below is the management discussion and analysis on the Shanxi Puhua Group for the period of the year ended 31 December 2008 and six months ended 30 June 2009:

(i) Business review of the Shanxi Puhua Group, for the period from 1 January 2008 to 30 June 2009

Business review and prospect

The business scope of Shanxi Puhua is the production of iron, steels, refractory materials, coal products, ferroalloy and pig iron. Other than acquiring and holding 95% equity interest of Hengtai, Shanxi Puhua has not commenced any business since its incorporation. The business scope of Hengtai is the sale of mechanical equipment and accessories in relation to coal.

Shanxi Puhua Group recorded RMBnil and RMB74,860,000 as the turnovers for the year ended 31 December 2008 and six months ended 30 June 2009. Hengtai started trial production of coal and started contributing revenue in January 2009 according to government approval. Shanxi Puhua Group recorded a profit before tax of RMB504,000 for the year ended 31 December 2008. The price of the coal mines went up again after the global economy has reached its nadir in 2008, which contributed to appreciation of the mining rights for RMB53,269,000, and the profit of Shanxi Puhua Group for the six months period ended 30 June 2009 was RMB73,373,000. The comprehensive income of Shanxi Puhua Group attributable to equity holders of Shanxi Puhua was approximately RMB403,220,000 for the year ended 31 December 2008 and RMB52,314,000 for the six months period ended 30 June 2009.

Capital structure, liquidity, financial resources and gearing ratio

The Shanxi Puhua Group recorded RMB2,404,942,000 as its total assets as at 31 December 2008, which mainly comprised of property, plant and equipment, intangible assets (values of the mining rights), and prepayment for the purchase of machineries of Hengtai. As at 30 June 2009, Shanxi Puhua recorded RMB3,017,839,000 as the total assets. For the corresponding periods, the total liabilities of the Shanxi Puhua Group were approximately RMB1,717,258,000, and RMB2,275,100,000. Shanxi Puhua Group's gearing ratios representing the total liabilities divided by total assets, were approximately 71.4% and 75.4% as at 31 December 2008 and 30 June 2009. The cash and cash equivalent for the year ended 31 December 2008 and 30 June 2009 were RMB135,336,000 and RMB71,637,000.

As at 31 December 2008, all of the Shanxi Puhua Group's bank borrowings were denominated in RMB which include RMB500,000,000 bank borrowings bearing interest with floating interest rates and RMB20,000,000 bank borrowing bearing interest at the rate of 13.446% per annum.

As at 30 June 2009, all of the Shanxi Puhua Group's bank borrowings were denominated in RMB which include RMB750,000,000 bank borrowings bearing interest with floating interest rates and RMB20,000,000 bank borrowing bearing interest at the rate of 13.446% per annum.

Capital commitment

The capital commitments of the Shanxi Puhua Group was RMB287,954,000 and RMB279,471,000 as at 31 December 2008 and 30 June 2009. The capital commitments were used to purchase machineries for the operation of Hengtai.

Treasury policies

The Shanxi Puhua Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the period under review.

Pledge of Assets

Shanxi Puhua and Shenzhen Branch of China Minsheng Banking Corp. Ltd. entered into an equity pledge agreement on 7 November 2008 pursuant to which 95% equity interest of Hengtai held by Shanxi Puhua has been pledged to Shenzhen Branch of China Minsheng Banking Corp. Ltd. for the purpose of guarantee of the loan agreement entered into between Hengtai and Shenzhen Branch of China Minsheng Banking Corp. Ltd. for the interest-bearing bank loan of RMB500 million.

Hengtai and Shenzhen Branch of China Minsheng Banking Corp. Ltd. entered into two mortgage agreements on 26 September 2008 and 13 April 2009 respectively, pursuant to which the mining rights of the Coal Mine No.1 and Coal Mine No.2 have been mortgaged to Shenzhen Branch of China Minsheng Banking Corp. Ltd. for the purpose of guarantee of two loan agreements dated 26 September 2008 and 13 April 2009 entered into between Hengtai and Shenzhen Branch of China Minsheng Banking Corp. Ltd. for the total loan amount of RMB750 million.

Shanxi Puhua's cash and bank balances amounting to approximately RMB45,000,000 and RMB140,000,000 as at 31 December 2008 and 30 June 2009, respectively, were pledged to banks for securing the general banking facilities granted to Shanxi Puhua.

Shanxi Puhua Group's cash and bank balances amounting to approximately RMB75,026,000 and RMB170,000,000 as at 31 December 2008 and 30 June 2009, respectively, were pledged to banks for securing the general banking facilities granted to Shanxi Puhua Group.

Exposure to Exchange Rate Fluctuations

The Shanxi Puhua Group had no exchange rate exposure in the relevant period.

Employee Information

For the year ended 31 December 2008 and the six months period ended 30 June 2009, the Shanxi Puhua Group hired 586 and 592 employees, and has incurred RMB3,835,000 and RMB9,898,000 on remuneration for its employees benefit expenses for the corresponding periods.

The above amount of employee benefit expenses for the year ended 31 December 2008 includes the benefit expenses of Shanxi Puhua for the full year 2008 and the employee benefit expenses of Hengtai from 29 July 2008 (date of acquisition) to December 2008.

The Shanxi Puhua Group didn't adopt any option plan.

Acquisitions, Disposal and Significant Investments

Shanxi Puhua acquired 95% equity interests of Hengtai on 29 July 2008. Other than that, it did not have any other acquisitions, disposal, and significant investments in the relevant period.

Details of Future Plans for Material Investment or Capital Assets

As at 30 June 2009, Shanxi Puhua did not have any future plans for material investment or capital assets.

The construction of Coal Mine No.1 has been completed and Coal Mine No.1 has already completed the trial stage of production. It is expected that the business license with scope including coal production and sale of coal will be obtained by Hengtai in early December 2009. Construction of Coal Mine No.2 is in process as at the Latest Practicable Date. 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.

Segmental information

Shanxi Puhua has not commenced any business since its incorporation, and therefore, has no separable operating segment other than Hengtai's business activities (Please refer to the management discussion and analysis of Hengtai set below for further information). Since no current and non-current assets and liabilities of Shanxi Puhua Group are located outside the PRC, no geographical segment information is presented.

Contingent liabilities

The Shanxi Puhua Group did not have significant contingent liabilities in the relevant period.

(c) Management discussion and analysis of Shanxi Puhua

Set out below is the management discussion and analysis on Shanxi Puhua for the period of the two years ended 31 December 2007:

(i) Business review of Shanxi Puhua, for the period from 1 January 2006 to 31 December 2007

Business review and prospect

The business scope of Shanxi Puhua is the production of iron, steels, refractory materials, coal products, ferroalloy and pig iron. Other than acquiring and holding of 95% equity interest in Hengtai, Shanxi Puhua has not commenced any business since its incorporation.

Shanxi Puhua recorded no turnovers and profits for the year ended 31 December 2006 as it had not commenced operations. It recorded no turnover for the year ended 31 December 2007 as it still had not commenced business activities, but it recorded a loss of RMB3,176,000 for administrative costs.

Capital structure, liquidity, financial resources and gearing ratio

Shanxi Puhua recorded RMB49,981,000 and RMB153,288,000 as the total assets as at 31 December 2006 and 2007. For the corresponding periods, total liabilities, which mainly comprised of payables for the purchase of fixed assets, of Shanxi Puhua were approximately RMB1,000 and RMB106,484,000. Shanxi Puhua's gearing ratios, representing the total liabilities divided by total assets, were approximately nil% and 69.5% as at 31 December 2006 and 2007.

Shanxi Puhua had no bank borrowings in the relevant period.

Capital commitment

The capital commitments of the Shanxi Puhua was RMBnil and RMB565,000,000 as at 31 December 2006 and 2007. The capital commitment of RMB565,000,000 in 2007 was engaged to acquire the equity interests of Hengtai.

Treasury policies

Shanxi Puhua had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the period under review.

Pledge of Assets

Shanxi Puhua had no pledge of assets for the period under review.

Exposure to Exchange Rate Fluctuations

Shanxi Puhua had no exchange rate exposure in the relevant period.

Employee Information

Shanxi Puhua had no employees and hence no remuneration for the year ended 31 December 2006. RMB22,000 employees benefit expenses were incurred in year 2007 for part time staffs.

Acquisitions, Disposal and Significant Investments

Shanxi Puhua did not have any other acquisitions, disposal, and significant investments in the relevant period.

Details of Future Plans for Material Investment or Capital Assets

As at 30 June 2009, the Shanxi Puhua did not have any future plans for material investment or capital assets.

Segmental information

Shanxi Puhua has not commenced any business since its incorporation, and therefore, has no separable operating segment. Since no current and non-current assets and liabilities of Shanxi Puhua are located outside the PRC, no geographical segment information is presented.

Contingent liabilities

Shanxi Puhua did not have significant contingent liabilities in the relevant period.

(d) Management discussion and analysis of Hengtai

Set out below is the management discussion and analysis on Hengtai for the three years ended 31 December 2008 and six months period ended 30 June 2009:

(i) Business review of Hengtai, for the period from 1 January 2008 to 30 June 2009

Business review and prospect

The business scope of Hengtai is the sale of mechanical equipment and accessories in relation to coal. Hengtai is on its trial production and is expected to start its commercialized production soon.

Hengtai recorded RMB11,122,000, RMB5,030,000, nil, and RMB74,860,000 as the turnovers for the three years ended 31 December 2008 and six months ended 30 June 2009. The comprehensive income attributable to equity holders of the Hengtai were approximately RMB835,000 and RMB20,411,000 for the year ended 31 December 2006 and the six months period ended 30 June 2009, and the comprehensive losses attributable to equity holders of Hengtai were approximately RMB5,940,000 and RMB11,838,000 for the two years ended 31 December 2007 and 2008.

Hengtai generated its revenues for 2006 and 2007 through the trading of bought-in coal products, and it ceased this trading activity in the middle of 2007 as to focus the capital on the construction of coal mine no.1. Hengtai started its trial production of the coal mine in January 2009 as approved by government, which generated sales of RMB74,860,000.

Capital structure, liquidity, financial resources and gearing ratio

Hengtai recorded RMB256,819,000, RMB294,875,000, RMB943,485,000, and RMB1,318,087,000 as the total assets as at 31 December 2006, 2007 and 2008 and 30 June 2009. For the corresponding periods, the total liabilities of Hengtai were approximately RMB84,764,000, RMB128,760,000, RMB789,208,000, and RMB1,143,399,000. Hengtai's gearing ratios, representing the total liabilities divided by total assets, were approximately 33.0%, 43.7%, 83.6%, and 86.7% as at 31 December 2006, 2007 and 2008 and 30 June 2009. The cash and cash equivalents of Hengtai are RMB5,458,000, RMB290,000, RMBB135,141,000 and RMB71,610,000.

As at 30 June 2009, all of Hengtai bank borrowings were denominated in RMB. RMB750,000,000 bank borrowings were interest-bearing with floating interest rates, RMB20,000,000 bank borrowings bears interest at the rate of 13.446% per annum.

Capital commitment

The capital commitments of Hengtai was RMB83,016,000, RMB28,636,000, RMB287,954,000, and RMB279,471,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009. The capital commitments, which were used to purchase machineries for the operation of Hengtai, were in an upward trend following the development and maturity of the coal mines, which in line needs more machineries for development of the coal mines.

Treasury policies

Hengtai had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the period under review.

Pledge of Assets

Hengtai and Shenzhen Branch of China Minsheng Banking Corp. Ltd. entered into two mortgage agreements on 26 September 2008 and 13 April 2009 respectively, pursuant to which the mining rights of the Coal Mine No.1 and Coal Mine No.2 have been mortgaged to Shenzhen Branch of China Minsheng Banking Corp. Ltd. for the purpose of guarantee of two loan agreements dated 26 September 2008 and 13 April 2009 entered into between Hengtai and Shenzhen Branch of China Minsheng Banking Corp. Ltd. for the total loan amount of RMB750 million.

Exposure to Exchange Rate Fluctuations

Hengtai had no exchange rate exposure in the relevant period.

Employee Information

For the year ended 31 December 2008 and the six months period ended 30 June 2009, Hengtai hired 586 and 588 employees, and has incurred RMB5,604,000 and RMB9,839,000 on remuneration for its employees benefit expenses for the corresponding periods. For the two years ended 31 December 2007, staff numbers is 40 and 70 respectively, employees benefit expenses is RMB301,000 and RMB1,990,000 respectively.

Hengtai didn't adopt any share option plan.

Acquisitions, Disposal and Significant Investments

Other than the investments in the Coal Mines, Hengtai did not have any significant investments, material acquisition or disposals for the period under review.

Details of Future Plans for Material Investment or Capital Assets

The construction of Coal Mine No.1 has been completed and Coal Mine No.1 has already completed the trial stage of production. It is expected that the business license with scope including coal production and sale of coal will be obtained by Hengtai in early December 2009. Construction of Coal Mine No.2 is in process as at the Latest Practicable Date. 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.

As coal is an important material and the demand remains strong, the directors believe that the coal mining and selling business can be prosperous.

Segmental information

Hengtai's revenue, profit or loss, assets and liabilities are solely generated from the business activity of mining and the sale of coal output in Mainland China. Accordingly, the directors are of the opinion that mining and the sale of coal output in Mainland China is a single reportable segment of Hengtai for each of the reporting periods.

Information about geographical areas: Hengtai's revenue from external customers is derived solely from its operations in Mainland China, and no current and non-current assets and liabilities of Hengtai are located outside Mainland China. Accordingly, no reportable segment information is presented.

Contingent liabilities

Hengtai did not have significant contingent liabilities in the relevant period.

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from B.I. Appraisals Limited, an independent valuer, in connection with their valuation as at 15 September 2009 of the 100% interest in the Coal Mines.

B.I.
To Know Your Strength Better

B.I. Appraisals Limited
保柏國際評估有限公司
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109-111 Gloucester Road, Wan Chai, Hong Kong
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18 November 2009

The Board of Directors
Yun Sky Chemical (International) Holdings Limited
Room 1211, 12/F, Tower I
New World Tower
18 Queen's Road Central
Hong Kong

Dear Sirs,

Re: The 100 per cent. interest in Nianpanliang Nos. 1 and 2 Coal Mines, Kangbashi, Dongsheng District, Ordos City, Inner Mongolia Autonomous Region ("Inner Mongolia"), the People's Republic of China (the "PRC")

In accordance with the instructions from Yun Sky Chemical (International) Holdings Limited (hereinafter referred to as the "Company") for us to value the 100 per cent. interest in Nianpanliang Nos. 1 and 2 Coal Mines (hereinafter referred to as "Coal Mine No. 1" and "Coal Mine No. 2" respectively and collectively referred to as the "Coal Mines") in Inner Mongolia, the PRC, which is exhibited to us as that held by Eerduosi Hengtai Coal Company Limited (鄂爾多斯恒泰煤炭有限公司, hereinafter referred to as the "Business Enterprise" or "Hengtai"), we confirm that we have conducted inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value of the Coal Mines as at 15 September 2009 (hereinafter referred to as the "Date of Valuation").

This report states the purpose of valuation and scope of our works, identifies the asset valued, describes the basis and methodology of our valuation, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

PURPOSE OF VALUATION

This report is being prepared solely for the use of the directors and management of the Company for reference purpose. It is our understanding that our opinion of value and/or valuation report on the Coal Mines may subsequently be included in a public circular to be issued by the Company.

This report is not to be used for any purpose other than that mentioned above, including issue to third parties, without our prior approval of the use, form and context in which it is released.

B.I. Appraisals Limited assumes no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

SCOPE OF WORK

This engagement involved an assessment of the Coal Mines as at the Date of Valuation. In undertaking this valuation assignment, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by Company and the management of the Business Enterprise or its representatives (hereinafter referred to as the "Management"):

- Interviewed/discussed with the management of the Company and the Management;
- Obtained all relevant operational and financial information related to the Coal Mines, the Business Enterprise and the business concerned;
- Performed market research and obtained statistical data from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information related to the Coal Mines, which were provided by the Company;
- Prepared a valuation on the Coal Mines; and
- Documented the result of our findings in this valuation report.

SOURCES OF INFORMATION

Our valuation report has been prepared based on information provided by the Company, which includes the following documents:

(a) A copy of the report of Independent Technical Review on the Coal Mines prepared by John T. Boyd Company (hereinafter referred to as "BOYD") dated 18 November 2009 (hereinafter referred to as the "ITR Report");

(b) Copies of the Mining Permits for each of Coal Mine No. 1 and Coal Mine No. 2 (hereinafter referred to as the "Mining Permits");

(c) A draft legal opinion prepared by Zhong Lun Law firm (hereinafter referred to as the "Legal Opinion");

(d) A copy of the Business License of Hengtai issued by Inner Mongolia Administration of Industry and Commerce on 10 June 2009 (hereinafter referred to as the "Business Licence"); and

(e) Financial information of Hengtai.

In preparing this report, we have had discussions with the representatives of the Company and the management of the Business Enterprise in relation to the development and prospects of the coal industry in the PRC, and the development, operations and other relevant information of the Coal Mines and the Business Enterprise.

Our valuation conclusion is based on the assumptions stated herein and on the information, in particular the ITR Report and the financial information provided to us by the Company. As part of our analysis, we have reviewed such financial information, the ITR Report and other pertinent data concerning the Coal Mines and the Business Enterprise provided to us and have considered such information and data to be truth, accurate and reflecting the situation of the Coal Mines and Hengtai's business, as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

THE BUSINESS ENTERPRISE

Hengtai (the Business Enterprise), incorporated on 3 June 2005, is organized as a limited liability company under the laws of the PRC with Registration No. 150000000003434 and having its registered address at Kangbashi in Dongsheng District. The registered capital of the Business Enterprise is RMB180,000,000, which has been fully paid up. The Business Enterprise is currently owned by Shanxi Puhua Deqin Metallurgy Technology Co., Ltd. (山西普華德勤冶金科技有限公司, hereinafter referred to as "Shanxi Puhua") as to 95% its equity interest and 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, hereinafter referred to as "Puhua Trading") as to the remaining 5% of equity interest. The current business scope of Hengtai is the sale of mechanical equipment and accessories in relation to coal. As at the Date of Valuation, Hengtai is the registered and beneficial holder of the mining permits over the Coal Mines. Hengtai has already passed the joint inspection and acceptance procedures for the testing operation of Coal Mine No.1 and has obtained the Coal Production Safety Permit (安全生產許可證). Besides, Hengtai has submitted all the required documents and materials to the Coal Industry Bureau of Inner Mongolia for obtaining the Coal Production Permit (煤炭生產許可證) in relation to Coal Mine No.1. It is expected that the Coal Production Permit will be obtained by Hengtai in late November 2009.

According to the Legal Opinion, the Business Enterprise is duly established and validly subsisting under the PRC Law, in which 95% equity interest is legally and validly owned by Shanxi Puhua and 5% equity interest is legally and validly owned by Puhua

Trading. Hengtai has the corporate power and authority to own, use, lease and operate its property and to conduct business as described in its business license. Hengtai legally and validly owns the mining rights of both the Coal Mines. The transfer of the mining rights of the Coal Mines from the previous owner to Hengtai has been duly registered and filed with Inner Mongolia Department of Land and Resources. Hengtai has fully paid the purchase prices for the mining rights of the Coal Mines.

THE COAL MINES

The Coal Mines forms part of the Nianpanliang Project which includes three adjacent mining areas designated as Nianpanliang Nos. 1, 2 and 3 Mines and located in the Dongsheng Coal Field on the eastern fringe of the Maowusu Desert in Dongsheng District of Ordos City, Inner Mongolia. The terrain in the locality is hilly to rugged in nature consisting of gulches and valleys with little vegetation. Maximum relief is approximately 9 metres (m); average relief is between 30 m to 40 m. The primary surface waters in the vicinity are Hashila River and the periodic flow found in the Naling Valley.

The Nianpanliang Project area measures approximately 3.0 kilometres (km) east to west, and 5.5 km from north to south, covering an area of approximately 10.1 square kilometres (sq km) with the No. 1 Mine (i.e. Coal Mine No.1) occupying the northernmost area followed by No. 3 Mine and then No. 2 Mine (i.e. Coal Mine No. 2) on the southern end of the project area.

Brief Description of Coal Mines

Coal Mine No. 1, located at approximately 3 km to the northeast of Dongsheng Town, measures approximately 1.8 km from east to west and 2.1 km from south to north with a land area of approximately 3.556 sq km. The boundary coordinates for Coal Mine No. 1 are as follows:

Coordinate No.	X (Northings)	Y (Eastings)
1	4415200	37417085
2	4415200	37417780
3	4415000	37418000
4	4414500	37418000
5	4414500	37418400
6	4414320	37418590
7	4414295	37418490
8	4413010	37417475
9	4413300	37416000
10	4413666	37416153
11	4414580	37416305

Coal Mine No. 2, situated to the south of Coal Mine No. 1, measures approximately 1.9 km from east to west and 1.8 km from south to north with a land area of approximately 3.3911 sq km. The boundary coordinates for Coal Mine No. 2 are as follows:

Coordinate No.	X (Northings)	Y (Eastings)
1	4412650	37415870
2	4412345	37417960
3	4411977	37417783
4	4410770	37417880
5	4410645	37417715
6	4410664	37416985
7	4410716	37416306
8	4411320	37415945

The geology of the coal deposit, as according to the ITR Report, is simple. The coal strata are nearly flat, with only a 0 to 2 degree dip. No faults have been observed or detected within the mining boundaries. There are several coal seams underlying the mining area. The major coal seams are the Nos. 3-1, 4-1, and 6-2. Secondary seams include the Nos. 2-1L, 2-2 and 5-1U. Mining is limited in some seams due to shallow depth of cover or insufficient seam thickness.

The Coal Mines are close to highways and a railroad. Public Road No. 109 and State Road 213 are at approximately 3 km to the south; whereas Public Road No. 210 is about 4 km to the west. Within the mining area, the Nianzhu Coal Transportation Road has a 4.5 km distance to State Road 213. The Dongsheng Beltway (highway) runs through the project area. Coal from Nianpanliang can reach Ordos City as well as Shengmu and Fugu County in the Shaanxi Province. The proximity of established roads provides the Coal Mines with convenient truck transportation options. The Chaonaogou Coal Loading Railway Station is located at 15 km from the Coal Mines.

Construction of Coal Mine No. 1, began in October 2006, has been completed and the Coal Mine No. 1 has already completed its test period. It is expected that Hengtai will obtain a renewed business licence with scope including coal production and sale in early December 2009. Construction of the Coal Mine No.2 is in process as at the Date of Valuation. 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.

Coal Mine No. 1 has three incline slope entrances consisting of a main production incline, a service incline to provide access for personnel and materials, and a ventilation incline for return air exhaust. Underground coal haulage will be accomplished by a network of conveyor belts that feed onto the large belt in the main incline. Rubber-tired diesel vehicles will be used underground to transport personnel and operating supplies. The Coal Mines are interconnected, and Coal Mine No. 1 provides the logistical support for Coal Mine No. 2.

Coal Mine No. 1 has a planned output capacity of 5.0 to 6.0 million tones per annum ("Mtpa") and the planned output capacity for Coal Mine No. 2 is 2.4 Mtpa. Currently, the authorized design output for the Coal Mines, according to the Mining Permits, is 1.2 Mtpa at each mine. Applications for the higher planned output capacities have been submitted. On 19 December 2007, the Coal Industry Bureau of Inner Mongolia conditionally approved the expansion of Coal Mine No. 1 to 2.4 Mtpa, pending successful completion of its test period, and agreed to issue a certificate to that effect.

Planned coal processing is limited to screening. The output from Coal Mine No. 1 will be transported by truck to local markets (local and regional power plants); whereas the output from Coal Mine No. 2 will be conveyed directly to a power plant stockpile facility. There are no plans at present for a coal preparation plant or railroad services.

The Mining Permits

Pursuant to two Mining Permits (Certificate Nos. 1500000730038 and 1500000730039) both dated 1 February 2007 issued by State-owned Land Resources Bureau of Ordos City, the mining rights of the Coal Mines are vested in Hengtai for terms of 15 years from February 2007 to February 2022. Details of the Mining Permits are summarized as follows:

Mining Right Area	Authorized Output Capacity *(Mtpa)*	Authorized Mining Elevation *(metres)*	Mining Method	Area *(sq km)*	Mining Right Validity
Coal Mine No. 1	1.2	1,400-1,160	Underground	3.556	Feb 2022
Coal Mine No. 2	1.2	1,400-1,170	Underground	3.3911	Feb 2022

Resource Estimation

Pursuant to the ITR Report, an inventory of coal resources by mining area of the Coal Mines is reported, which is summarized as follows:

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

Coal reserves of the Coal Mines as estimated in the ITR Report are as follows:

Mine No.	In Situ Measured Resources *(Mt)*	Proved Recoverable Reserves *(Mt)*	Proved Marketable Reserves *(Mt)*
1	48.36	30.06	28.84
2	59.20	41.80	39.58
Total	107.56	71.86	68.42

Coal Quality

According to the ITR Report, the Nianpanliang coals are classified internationally as bituminous and, according to the Chinese classification system, as long flame coal (CY41). Coals of these qualities are highly suited for the steam and thermal coal markets and are highly marketable for coal-fired generation. BOYD's estimates of raw coal quality for the Coal Mines assume 0.1 m of out-of-seam dilution, resulting in the following projected run-of-mine qualities:

Seam	Moisture % (ad)	Ash % (dry)	VM % (daf)	Sulfur % (dry)	Phos % (dry)	CV (ad) (Kcal/kg)
Coal Mine No. 1						
3-1U	11.8	12.3	35.1	0.9	0.002	6,330
4-1	11.2	10.4	36.7	1.1	0.002	6,540
6-2	10.9	16.1	32.6	1.4	0.034	6,199
Coal Mine No. 2						
2-1L	14.0	16.4	34.0	0.9	0.002	5,930
2-2	14.2	13.6	35.4	1.0	0.004	6,210
3-1U	13.7	12.9	35.2	1.0	0.001	6,240
4-1	13.9	10.4	36.5	1.2	0.003	6,560
5-1U	13.8	15.3	33.5	0.5	0.002	6,210
6-2	12.4	14.9	32.4	0.6	0.012	6,240

MARKET OVERVIEW

Coal mining business is one of the key driving forces of the economic development of the PRC. Owing to limited alternative energy resources available in the PRC, the country has to rely on coal as a major energy input at this moment. In 2007, the coal usage accounted for 76% of energy output and 69% of consumption. In recent years, the coal output in the PRC has been increased significantly. The country is now the largest producer and consumer of coal in the world.

The estimated total coal resources in the PRC are about 1 trillion tonnes. Yet they are not evenly distributed and mainly concentrated in Inner Mongolia, Shanxi, Anhui, Shandong, Guizhou, Heilongjiang, Hebei, Henan, XingJiang, Shannxi, Nigxia and Yunnan Provinces. Obviously, these provinces are located at the northern and the western parts of the country. Among the identified coal resources, Shanxi and Inner Mongolia both have the maximum coal reserves, which accounted for 26.04% and 21.88% of the country's reserves respectively. The reserve level of accessible coal is also the largest in these 2 provinces, equivalent to 30.9% and 24.43% of the national reserves respectively.

Based on Statistical Review of World Energy 2008, the PRC produced nearly two-fifth of total coal production in the world. The annual coal output in the PRC for Year 2008 reached 2.62 billion tonnes, representing a growth of approximately 3.8% from the 2007 annual output of 2.53 billion tonnes. The PRC's coal production was up 5% in the first quarter of Year 2009 due to the stronger output from Inner Mongolia that is up by yearly growth of 22%. The output from Inner Mongolia is far more than the sum of southern coal consuming provinces. The overall coal output in the PRC was stably increasing at a quarterly average growth rate of 3.39% over the period. It seems that the fluctuation of coal price in 2008 does not affect the general coal production to a large extent.

Coal demand has experienced a rapid continuous increase since 1980s. The China Coal Industry Development Research Center predicted that the coal demand of the country for this year would hit 2.13 billion tonnes. The National Bureau of Statistics recently indicates the coal consumption hit 649 million tonnes in the first quarter of year 2009, a year-on-year increase of 2.69%, and rose 10.71% points over previous quarter.

Coal is currently the dominant energy in the PRC. Its consumption tends to be concentrated in four industries including power generation, building material, metallurgy and chemical production, which have accounted for about 90% of the PRC's total coal demand. In fact, the electricity generation is the determinant of coal demand, which has been consuming more than 50% of total coal produced since 2005. It is witnessed that the coal production follows closely the power output. To meet the long-term power output, it must maintain a safety stock level. The share of power generation in the national coal consumption is projected to increase from 56% in 2003 to 71% in 2020, but still lower than that in developed countries.

The coal price in the PRC has soared up gradually since 2004 and ultimately reached a historical record high, 1,012 RMB per tonne in the third quarter of year 2008. Until the first half year of 2008, the coal market remained tight. Serious natural disasters like Sichuan earthquake caused a tight demand and supply to a larger degree. In such situations, the rising coal price would possibly result in price inflation. In order to alleviate inflation and ease the losses suffered by the electric power industry, the central government imposed a price cap on the coal spot price and manipulated the coal trading price in the market. After September 2008, there was an unexpected economic downturn resulting from the impact of financial crisis in Wall Street. The demand for industrial raw materials and power fell, which caused a sharp decline of coal demand within a relatively short period. Despite the price slump at the end of 2008, the coal price has maintained at an average yearly growth rate of 4.23%.

To sum up, the coal market looks promising and enticing in the future regardless of global financial crisis. Since the energy consumption supported the rapid economic growth, the domestic coal demand has been generally stable. In contrast, there would be a short of supply in certain regions during certain periods. As a command economy, political influence is essential in the PRC. The government aims to restructure the coal mining industry in order to make it more competitive and effective. The coal supply structure is changing as small mines gradually replaced by key State-owned big mines. On 7 May, 2008, the State Administration of Work Safety strongly urged local governments to formulate plans by closure of many small coal mines for safety and efficiency reasons. The government is determined to promote integration and consolidation of fragmented coal industry.

As the global economy is on the road of recovery, a bright future is believed to be ahead of the PRC's coal industry. It is expect the coal price will maintain at a relatively stable level given a sign of strengthening coal market dynamics. The tax reform on coal resources and production volume constraints will form a strong support for coal prices. Furthermore, a stable increment in demand from major coal-consuming industries will add more support for coal price. This environment will be favorable towards stabilizing the coal price in a foreseeable period. Given the sound fundamental of the industry in the long run, the supply as well as demand of the market is expected to further increase at a rapid pace. Therefore, the coal mining business in the world's third largest economy is able to maintain a sustainable growth.

BASIS OF VALUATION

We have valued the Coal Mines on the basis of its market value which is defined herein as the estimated amount at which an asset 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.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprise (1st Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (1st Printed 2005) published by the Hong Kong Business Valuation Forum, and under generally accepted valuation procedures and practices.

INVESTIGATION AND ANALYSIS

We confirm that we have carried out on-site inspection of the Coal Mines and their production facilities, made discussions with the management of the Company in relation to the history and nature of the business operations of the Coal Mines and a review of the information provided by the Company in connection with the strategy of and the plan of action to be taken in the business development in relation to the Coal Mines. We have assumed that such information, opinions and representation provided to us are true and accurate. Before arriving at our opinion of value, we have considered the major factors including the followings:

- The nature and conditions of the Coal Mines and its history from establishment;

- The financial condition of the Business Enterprise;
- The nature and the characteristics of the mining rights such as the historical background, the remaining life and the ground work to develop the mining areas;
- The mining operations and resource/reserve estimation by the technical experts;
- The capability of the Business Enterprise in developing the Coal Mines and its subsequent operational strategies;
- The coal market conditions in which the Coal Mines is situated;
- The economic and industry conditions affecting the Coal Mines and the coal mining industry in the PRC; and
- The economic outlook of the PRC in general and the specific economic environment and market elements in the world that may affect the business as a whole.

VALUATION ASSUMPTIONS

In the course of our valuation, we have adopted certain assumptions and the major ones are as follows:

- The Business Enterprise has free and uninterrupted rights to operate the Coal Mines throughout the period until the entire coal reserves of the Coal Mines are fully exploited and subject to no land premium or any payment to the government of substantial amount;
- The Business Enterprise is entitle to dispose of, transferred and assign freely the interests in the Coal Mines for the whole of the unexpired terms as granted without payment of any premium to the government;
- The Business Enterprise can be freely disposed of and transferred free from all encumbrances for its existing or approved uses in the market to purchasers;
- The mining rights are able to be renewed from time to time in order to achieve the planned extraction phase;
- The Business Enterprise will retain competent management, key personnel, marketing and technical staff to support the ongoing operation and development of the Coal Mines;
- There will be a sufficient supply of technical staff in the industry in which the Business Enterprise operates;

- The Business Enterprise will successfully develop the Coal Mines as planned, and will successfully obtain approval for the increase in authorized output capacities of the Coal Mines;

- The Business Enterprise has adequate working capital to implement the scheduled mining operations from time to time;

- The Business Enterprise has adopted reasonable and necessary security measures and has considered contingency plans against any disruption (such as fire, change of government policy, labour dispute, implementation of serious statutory mining safety measures, geologic formation structurally deformed and other types of unexpected accident or natural disasters of catastrophes) to the scheduled mining operations;

- There exist reliable and adequate transportation network and capacity for the mining products;

- All required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization have been or can readily be obtained or renewed from time to time until the coal reserves of the Coal Mines are fully exploited;

- All relevant legal approvals and business certificates or licences to operate the Coal Mines have been officially obtained and will be renewable from time to time until the coal reserves of the Coal Mines are fully exploited;

- There are no outstanding debts and loans incurred at the Date of Valuation;

- There will not be material changes in government policies or political, legal (including legislation or regulations or rules), fiscal (including interest rate and exchange rate), market or economic conditions, the bases or rates of taxation in the PRC;

- There will be no major changes in the current taxation laws in the specific market areas and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with; and

- Interest rates and exchange rates in the specific market areas will not differ materially from those presently prevailing.

APPROACHES TO VALUE

In the course of our valuation, we have considered the three generally accepted approaches to assess the value of an asset, namely, the Asset-based Approach, Market Approach and Income Approach. Each of these approaches is appropriate in certain circumstances. The decision as to which approach to utilize generally depends on the approach most commonly adopted in valuing the asset that is similar in nature with that in question and the availability of appropriate information. The theory of these approaches is outlined as follows:

(1) *The Asset-based Approach* is founded on the principle of substitution, i.e., an asset is worth no more than it would cost to replace all of its constituent parts. It is a means of estimating the value of a business interest using methods based on the market value of individual business assets less liabilities.

The assumption is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital (equity and long term debt).

(2) *The Market Approach* is a general way of estimating a value indication of a business interest using one or more methods that compare the subject to similar business or business ownership interest that changed hands in arm's-length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative.

This approach involves the collection of market data pertaining to the business interest being valued. The primary intent of the Market Approach is to determine the desirability of the business interest through recent sales of similar businesses currently on the market in order to arrive at an indication of the most probable selling price for the business being valued. If the comparable sales are not exactly similar to the business being valued, adjustments may need to be made to render the similar businesses and the subject business more comparable.

(3) *The Income Approach*, also known as Income Capitalization Approach, is a general way of estimating a value indication of a business interest using one or more methods wherein a value is estimated by converting anticipated benefits into capital value. It focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity.

In any valuation study, all three approaches to value must be considered, as one or more approaches may be applicable to value the Business.

VALUATION METHODOLOGY

Given the nature of the Coal Mines and the information available, we considered the Market Approach to be the most appropriate approach and adopted the Market Transaction Method. The market transaction method determined 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 multiple for the Coal Mines, the recoverable reserves of the transacted coal mines are considered to be most appropriate measurement unit.

In the course of our valuation, we have carried out searches for transactions of coal mines in the period from January 2007 to September 2009 from public sources, including the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. With our utmost care and best endeavours to include as much as possible the suitable and relevant transactions of coal mines as we were aware and those that were come to our attention, we have collected and analyzed five comparable transactions which have been selected on the following criteria:

- The comparable coal mines are located in the PRC;
- They are all transactions in relation to listed companies in HK and in the PRC;
- The comparable coal mines are either developed or subject to development and/or technological reform plans; and
- The tonnage of coal reserves and the production scales of the comparable coal mines are within comparable ranges of the Coal Mines.

No.	Purchaser and Date of Acquisition Agreement	Location of Coal Mine	Purchase Consideration *(RMB)*	Recoverable Reserves *(Mil tonnes)*	Price per ton of Coal Reserves *(RMB/tonnes)*	Mine Status
1	Fushan International Energy Group Ltd 25 June 2008	Shanxi	10,476,005,425	142.35	73.59	In operation
2	Kenfair International (Holdings) Ltd 30 October 2007	Heilongjiang	700,000,000	10.8	64.81	In operation
3	Heilongjiang Tianlun Real Estate Development Co Ltd 10 April 2008	Guizhou	88,291,667	3.74	23.61	Greenfield
4	Everbest Energy Holdings Ltd 25 July 2007	Henan	450,000,000	18.04	24.94	Operation suspended
5	Everbest Energy Holdings Ltd 17 May 2007	Henan	140,000,000	5.32	26.32	Operation suspended

Brief descriptions of the comparable coal mines are as follows:

1. *Comparable 1* comprises three coal mines in Liulin County, Shanxi Province, each with a mining permit of 1.2 Mtpa for a period from February 2007 to February 2012. The actual output capacity of each of the three mines under existing outfit is 2.1 Mtpa. The three mines, covering respective mining licence areas of approximately 6.35 sq km, 11.6 sq km and 13.9 sq.km., began operation in 1996, 1968 and 1988 respectively. Two of the three mines are producing good quality, low to medium ash, very low sulfur coking coal whereas the remaining one is producing medium ash, medium to high sulfur, lean coking coal. The calorific value of the coal produced from the three mines ranges from 7,690 to 8,470 Kcal/kg.

2. *Comparable 2* covers a mining licence area of approximately 36.83 sq km in Jixian County, Shuangyashan City, Heilongjiang Province. It was built in 1970 with coal production commencing in 1972 and has been operating since then. The subject mine was granted with a mining permit for an annual production capacity of 450,000 tonnes for a term from 30 November 2007 to 30 December 2012 and it's design capacity as at the date of transaction was 600,000 tonnes per annum. Application for the revision of the Mining Permit to produce up to 600,000 tonnes per annum had been made and was expected to obtained approval by mid-2008. There was an expansion plan to ramp production up to 900,000 tonnes per annum by 2010. Per the information available, the capital expenditure for the 300,000-tonne Expansion would be about RMB128.78 million. Besides, there was an outstanding mining right fee of approximately RMB76.1 million. The coals of the subject coal mine are medium to high volatile bituminous coals with calorific value ranging from 7,640 to 8,600 Kcal/kg.

3. *Comparable 3* covers a mining licence area of approximately 2.06 sq km in Shuicheng County, Guizhou Province. It was planned to be built on a designed capacity of 450,000 tonnes per annum. Construction of the mine was expected to commence in second half of 2008. The coals of the mine are classified as coking coal and lean coking coal, which are generally used by coking plant and as thermal coal.

4. *Comparable 4* comprises two coal mines, covering a total mining area of approximately 3.81 sq km, in Dengfeng City, Henan Province. The operations of the two coal mines have been suspended to carry out technological reform expect that the technological reform would be completed no later than the first half of 2009 and the annual production of the subject mines will reach 450,000 tonnes upon completion of the technological reform. The coals of the subject coal mines are classified as lean coal, which are generally used as thermal coal.

5. *Comparable 5* comprises two coal mines, covering a total mining area of approximately 1.11 sq km, in Dengfeng City, Henan Province. The operations of the two coal mines have been suspended since May 2005. It is expected that

technological reform of the two coal mines would be completed by October 2007 and the annual production of the subject mines will reach 300,000 tonnes upon completion of the technological reform. The coals of the subject coal mine are classified as lean coal, which are generally used as thermal coal.

In terms of price per tonne of recoverable reserves, the comparables were transacted at prices ranging from RMB26.32 to RMB73.59, reflecting the difference in quality of coal, time and the status of the mines. It is observed from the above analysis that for the greenfield mine (i.e. comparable 3) and suspended mines (i.e. comparable 4 and 5) which are relatively smaller in size and were subject to integration and consolidation, they were offered at a lower price range. For comparable 1 and 2 of which are fully developed coal mines and are considered similar to the Coal Mines in term of physical condition. Taken into consideration the above analysis and the relevant adjustments to the difference in quality of coal, time and mine status, we conclude that the market value of the Coal Mines can be represented by a price of RMB43.5 per tonne of recoverable reserves.

VALUATION COMMENTS

We have not investigated any industrial safety environmental and health-related regulations in association with this particular production process. It is assumed that all-necessary licenses, procedures, and measures were implemented in accordance with the Government legislation and guidance.

We have been provided with copies of the Mining Permits relating to the Coal Mines and legal opinion on its ownership. We assume no responsibility for matters legal in nature nor do we render any opinion as to the title to the Coal Mines that is assumed to be good and marketable. Unless otherwise stated, it is assumed that it is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value. It is further assumed that there are no hidden or unapparent conditions of the Coal Mines, which would render it less valuable.

LIMITING CONDITIONS

This valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are true and accurate. The data, opinions, or estimates identified as being furnished by others which have been used in formulating this analysis are gathered from reliable sources, yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided in arriving at our opinion of value. We assume, without independent verification, the accuracy of all information provided to us. We have had no reason to doubt the truth and accuracy of the information furnished to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We would particularly point out that our valuation has relied heavily on the information as contained in the information provided to us.

Our conclusion of the market value is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Neither the whole nor any part of this valuation report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

In accordance with our standard practice, we must state that this valuation report is for the sole use of the party to whom it is addressed and for the specific purpose stated above. No responsibility is accepted to any third party for the whole or any part of its contents.

CURRENCY

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

OPINION OF VALUE

Premised on the foregoing, we are of the opinion that the market value of the 100 per cent. interest in the Coal Mines as at 15 September 2009, was reasonably represented by the amount of **RMB3,100,000,000 (RENMINBI THREE BILLION ONE HUNDRED MILLION ONLY).**

We hereby confirm that we have neither present nor prospective interest in the Company, the Business Enterprise, the Coal Mines or the value reported herein.

Yours faithfully,
For and on behalf of
B.I. APPRAISALS LIMITED
William C. K. Sham
Registered Professional Surveyor (G.P.)
Registered Business Valuer
China Real Estate Appraiser
MRICS, MHKIS, MCIREA
Executive Director

Note: Mr. William C. K. Sham has been conducting asset valuations and consultancy works in the Greater China and the Asia Pacific regions for various purposes for more than 25 years. He has undertaken various valuation assignments on business enterprises and intangible assets since 1998 and has extensive experience in the valuation of patent and proprietary technology; infrastructure project including power plants, toll roads, port facilities; and business enterprises in various industries such as information technology, health products, pharmaceutical and biotechnology, media, energy, etc.

18 November 2009

The Directors
Yun Sky Chemical (International) Holdings Limited
Room 1211, 12th Floor
Tower 1, New World Tower
18 Queen's Road Central
Hong Kong

Dear Sirs

1.0 INTRODUCTION

1.1 Background

BOYD was engaged in July 2009 by Shanxi Puhua Deqin Metallurgy & Technology Co., Ltd (Shanxi Puhua), and subsequently in October 2009 by Yun Sky Chemical (International) Holdings Limited to complete an Independent Technical Review (ITR) of the Nianpanliang Nos. 1 and 2 coal mines (Nianpanliang) in accordance with the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong (SEHK). The Nianpanliang Project is located in Inner Mongolia, the People's Republic of China (PRC), approximately 3 km northeast of Dongsheng Town. Figure 1.1, following this text, shows the general location of the Nianpanliang site.

The Nianpanliang Project areas were originally explored at the direction of, and the original feasibility studies were commissioned by, the PRC government. The original feasibility study commissioned by the PRC government for the Nianpanliang No. 1 Mine was completed in 1990, with construction starting in August of 1991. At that time, the PRC government had planned on construction of the 240 MW Dalate Power Plant, which is approximately 60 km north of Ordos; the Nianpanliang deposit appeared to be the best prospect in the area. Construction of the power plant was delayed, and the mine never became operational. The only coal mined was that recovered during construction of the mine incline opening. In 1995, the mine was closed due to limited investment, lack of markets, and a change in management. Since 1995, the Dalate Power Plant has been constructed and has become operational along with two other smaller power plants (66 MW each) located within 6 km to Nianpanliang.

The original Nianpanliang concession was divided into three parcels to enable the owners to receive the Inner Mongolian Bureau of Land and Resource approval for three mines, with 1.2 Mtpa capacity for each of the mines, which maximized the provincial government's authorization limit for a single mine.

The mining rights of Nos. 1 and 2 coal mines were originally held by Ordos Huineng Coal Investment Co., Ltd., now known as Ordos Huineng Coal and Electricity (Group) Co., Ltd., and Inner Mongolia Huineng Coal and Electricity Group Co., Ltd. (Huineng Co.).

Huineng Co. and Eerduosi Hengtai Coal Company Limited (Hengtai) entered into an undated Mining Rights Transfer Agreement. According to a government approval issued by the Inner Mongolia Coal Industrial Bureau, the mining rights of No.1 coal mine were transferred from Huineng Co. to Hengtai in March 2006, and such transaction was approved by the Inner Mongolia National Land and Resource Administration. Two mining rights certificates for No. 1 and No. 2 coal mines were issued in the name of Hengtai on 24 March 2006 for one year, from March 2006 to March 2007; both have been replaced by the current mining rights certificates issued on 1 February 2007, which extend the rights for 15 years.

Description of company

The following is brief description of the Eerduosi Hengtai Coal Company as provided by Hengtai.

Hengtai was established in June 2005 with registered capital of RMB60 million, which has increased to RMB180 million currently. In July 2008, Shanxi Puhua Deqin Metallurgical Technology Company Limited and Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd. acquired 95% and 5% ownership of Hengtai, respectively. Hengtai is engaged in the coal mining and sales business (Hengtai has no other business except for coal mining and sales) and is located in Kangbashi, Dongsheng District, Ordos City.

Ownership structure is as follows:

- Triumph Fund A owns 100% of Shanxi Hengchuang;
- Shanxi Hengchuang owns 99% of Shanxi Puhua;
- Shanxi Puhua owns 95% of Hengtai;
- Hengtai owns Nianpanliang Mine Nos. 1 and 2.

Hengtai currently has 580 employees as follows:

Management:	40
Surface:	120
Underground:	420
Total:	580

For the first 6 months of 2009, Hengtai reports audited sales revenue of RMB75 million, sales cost of RMB24 million, and net profit of RMB20 million. As of 30 June 2009, fixed mining asset were reported at RMB280 million.

A profile of the Nianpanliang Project is as follows:

- The Project area is composed of three subareas. The northern subarea is designated as Nianpanliang No. 1 Mine, and the southern subarea is designated as Nianpanliang No. 2 Mine. The Nos. 1 and 2 mining right areas encompass 3.6 km^2 and 3.4 km^2, respectively. A third subarea, designated as No. 3 Mine, occupies the area between the Nos. 1 and 2 mining right areas. Mining rights for the No. 3 Mine, needed to implement the overall mine plan must be applied for.

- The No. 1 Mine has a planned capacity 5.0 to 6.0 Mtpa, and the No. 2 Mine has a planned capacity of 2.4 Mtpa. Applications for the higher planned output capacities have been submitted. On 19 December 2007, the Coal Industry Bureau of Inner Mongolia conditionally approved the expansion of No. 1 Mine to 2.4 Mtpa, pending successful completion of its test period, and agreed to issue a certificate to that effect. The mine completed its test period in November 2009. This report is prepared on the basis of the planned output capacities and assumes necessary governmental approvals will be obtained in a timely manner.

- The No. 1 Mine construction, which commenced in October 2006 is scheduled for completion in late 2009 with the installation of the second FM LW face. One FM LW face is presently operating. Construction schedule for the No. 2 Mine is determined by the approval for the No. 3 Mine Area mining right certificate. Upon receipt of the necessary mining right certification, the No. 3 Mine area will be integrated into Mine Nos. 1 and 2 mine plans, as the No. 3 coal resources would not support an independent mine project.

- Principal coal seams to be exploited are the Nos. 3-1U, 4-1, and 6-2.

- Coal qualities are primarily long flame (CY category) according to Chinese standard quality classification. Coals of these qualities are highly marketable for coal-fired generation.

- Planned coal processing is limited to screening. No. 1 Mine output will be transported by truck to local markets. No. 2 Mine output will be conveyed directly to a power plant stockpile facility. There are no plans at present for a coal preparation plant (CPP) or railroad service.

1.2 Scope of Work

By assignment, the scope of ITR work for Nianpanliang Nos. 1 and 2 mines includes the following:

- Information Review – Review of all material documents provided by Hengtai.

- Site Visit – BOYD representatives' site visit of the Nianpanliang Project area.

- Resource Analysis – Detailed review and evaluation of coal resources and classification according to the JORC Code.

- Equipment and Capacity Review – Review of the capacity of proposed equipment and requirements for planned capacity.

- Operating License Review – Review of mining licenses to current plans to determine potential issues; this does not constitute a legal review of such licenses.

- Mine Construction Status – Summary of work completed, mine construction schedule, and related matters.

- Environmental Overview – Review of environmental obligations and planning provisions.

- Mine Plan – Using available coal resource (reserve) and mine studies, review of mine plans for each mine, including output projections, staffing, capital spending, and operating costs.

1.3 Work Program

A comprehensive list of required source data was forwarded to Hengtai and Shanxi Puhua upon initiating project work in July 2009. Information was subsequently provided to BOYD's Beijing office.

During the course of this study, a three-member team of BOYD's US and China technical specialists in underground coal mining completed a site visit on 13 July 2009 to observe mine construction at No. 1 Mine, collect available source data, and discuss future plans with technical and management staff. Previous site visits were conducted on 8 November 2007, 29 and 30 January 2008, and 20 August 2008 to review mine construction progress and discuss near-term mine plans. BOYD's Beijing office also provided client liaison and technical and translation support.

1.4 Source Data

The principal sources of information for this project are:

1. Exploration Geological Report (Intensive Exploration) of Nianpanliang Mine Field, Exploration Team 117, Inner Mongolia Autonomous Region, Coalfield Geology Bureau, December 1989.

2. Nianpanliang No. 1 Mine Preliminary Design Report, Inner Mongolia Autonomous Region Coal Mine Design and Research Institute, September 2006.

3. Nianpanliang No. 2 Mine Feasibility Study Report, Inner Mongolia Autonomous Region Coal Mine Design and Research Institute, July 2006.

4. Nianpanliang No. 1 Mine Environmental Impact Assessment Report, Environmental Sciences Research Institute, Inner Mongilia Autonomous Region, November 2006.

5. Mine planning and operating data as provided by Hengtai and Shanxi Puhua.

While the primary source of information (written and verbal) relied upon by BOYD in preparing this ITR was provided by Hengtai and Shanxi Puhua (including geologic, preliminary design, feasibility reports, mine plans, and operating data), we independently evaluated the reasonableness of the data provided within the context of our professional and technical expertise and our broad Chinese and international mining experience. To confirm our interpretation of the Nianpanliang data, discussions were conducted with Hengtai after our analysis of the available data. Additional information was requested and collected as necessary.

1.5 Project Team

The BOYD project team has extensive professional experience in coal resource and mine evaluations. Key professionals for this project include:

Mr. Ronald L. Lewis – Managing Director and COO, BS (Civil Engineering)

Mr. Lewis has 38 years of experience in assessment and evaluation of coal mining companies, with specialized expertise in the areas of coal/mineral reserve estimation, opencut and underground mine analysis, and economic assessment of mining operations. He is a Registered Professional Mining Engineer and a recognized expert in mining property valuation. Mr. Lewis is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code).

Mr. David Zhong – Managing Director – China, BS (Mining Engineering)

Mr. Zhong has over 40 years of experience in the mining industry, primarily in coal mine design at the Beijing Coal Design and Research Institute. His last position was that of Chief Engineer.

Mr. James F. Kvitkovich – Vice President, BS (Mining Engineering)

Mr. Kvitkovich has 28 years of experience in assessment and evaluation of underground coal mining operations throughout the world. He is a Registered Professional Engineer and is highly experienced with regard to reviewing and evaluating longwall (LW) mining operations. Mr. Kvitkovich is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code).

Mr. Edward Mast – Senior Geologist, BS (Geology)

Mr. Mast is a Certified Professional Geologist (AIPG) with 34 years of professional experience in exploration, evaluation, and development of coal and mineral deposits. Mr. Mast is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and a member of the American Institute of Professional Geologists and is qualified as a Competent Person as defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code).

Mr. Zhao Liang – Manager of Technical Services – China, BS (Coal Mine Technology)

Mr. Zhao has 10 years of mining industry experience with a broad base of knowledge of coal mine design and feasibility gained at the Beijing Huayu Engineering Co. Ltd.

Mr. Donald S. Swartz – Senior Mining Consultant, BS (Mining Engineering)

Mr. Swartz has six years of mining industry experience in the United States.

Mr. Jisheng Han – Mining Engineer, BS/MS (Mining Engineering)

Mr. Han has 11 years of mining industry experience in both China and the United States.

1.6 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world serving the mining, financial, utility, power, and related industries. Our consultancy services have been provided since 1943 in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- Due diligence of mining operations
- Fuel and energy supply planning
- Permitting and environmental analysis
- Contract negotiations
- Market and transport analysis
- Economic feasibility studies and valuations
- Assessment of existing operations
- Strategic business planning
- Transport issues
- Asset appraisals
- Minerals industry restructuring
- Privatization studies
- Geologic, reserve and mine plan modeling
- Exploration design and supervision
- Reserve and geotechnical studies
- Technical assistance in legal matters
- Monitoring of operating companies
- Financial analysis

BOYD also possesses extensive computer and software systems to estimate reserves and complete mine plans. These include Vulcan, MINCOM, SurvCADD, and others.

Our headquarters are located in the Pittsburgh, Pennsylvania, region in the United States. Branch offices are established in Denver, Colorado (US); Brisbane, Australia; and Beijing, China. Please visit our website (www.jtboyd.com) for additional details.

We have extensive experience in preparing Competent Persons and Independent Technical Review reports for international financing purposes and for stock exchange filings. We are knowledgeable of listing requirements of the SEHK, London Stock Exchange, and NI43101 (Canadian Requirements), JORC Code, U.S. Securities and Exchange (SEC) Rules, etc. We are familiar with the level of effort required by international investors and financial institutions.

Among our Chinese coal projects, we represented Shenhua Group Corporation as their Technical Advisor for the China Shenhua Energy Company Limited (China Shenhua) Initial Public Offering (IPO) on SEHK. Our work included an analysis of reserves (JORC, SEC, and UN Reporting Standards), coal quality, mine operations, processing, material handling, rail and ocean transport facilities, and operating economics. Shenhua Group Corp.'s reserve holdings were evaluated according to JORC Code and the requirements of the SEHK Rule 18. Our report was accepted by the SEHK. We subsequently prepared four resource studies commissioned by China Shenhua for material acquisition SEHK filings. We also prepared ITRs for MP Logistics International Holdings Limited (Ming Kei Energy Holdings Limited) for a transaction involving two openpit mines in Xinjiang Uygur Autonomous Region, for Fushan International Energy Group Limited's acquisition of Fortune Dragon Group Limited mines in Shanxi Province, for Artfield Group Limited's very substantial acquisition SEHK filing for the Ming Kei Energy Holdings Limited openpit mines in Xinjiang Uygur Autonomous Region, and for GCL-Poly Energy Holdings Limited's acquisition of the Duolun Mine in the Inner Mongolia Autonomous Region. Our Chinese non-coal projects include the ITR for the Lumena Resources Corporation IPO on the SEHK.

BOYD is a recognized consultancy having worldwide stature. We were retained by Her Majesty's Government, Department of Trade and Industry, regarding the privatization of British Coal Corporation (British Coal) and were actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the restructuring of the industry, and the coal mining operations of British Coal were successfully privatized. We have completed over 2,000 resource and reserve audits. BOYD's reserve statements have been used by client companies, including some of the largest US coal producers, for SEC filings. We have worked with virtually all of the major international banks. Numerous financial agencies have used our services to opine on property/mine operations.

1.7 Statement of Interests

BOYD is a privately owned consultancy firm with headquarters in the United States. Our company was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and valuation. BOYD has no ownership or shareholder interest in the Nianpanliang Nos. 1 and 2 mines, Hengtai, Shanxi Puhua, or Yun Sky. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by Yun Sky.

1.8 Forward-Looking Statements

Estimates of coal resources and reserves, as well as projections of coal mine output, are inherently forward-looking statements. Actual performance may differ from projections of future performance due to various reasons beyond the control of BOYD, including, but not limited to, inherent uncertainties in geologic data interpretation; occurrence of unforeseen geological conditions; change or lack of development in key domestic and international markets; material changes in market prices; variances in the execution of construction and mine plans; and significant changes in projected materials, supplies, parts and equipment, operating costs, and expenditures. Imposition of different central, regional, and/or local government policies could affect future coal production. For example, increased environmental compliance and changes in regulatory oversight for health and safety could result in reduced output and increased costs. Possible variations of future performance from the projections presented in this report are addressed in more detail in specific sections of this report. Comments on the risks inherent in the various operations are discussed in the appropriate sections.

1.9 Closing

In preparing this report, we have relied on reserve, operating, and other data as provided by Hengtai and Shanxi Puhua. We have exercised reasonable care in reviewing the information provided. We have no reason to believe that any material facts have been withheld or that a more detailed analysis may reveal additional material information. Our ITR has been completed in accordance with generally accepted standards and practices employed in the international mining industry. Although we have compared key information provided by Hengtai and Shanxi Puhua with expected values, the accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. We have made no attempt to verify the technical and geological information presented in the reference material documents and assume it has been prepared by competent engineers and geologists. Our expertise is in technical and financial mining issues, and BOYD is not qualified to offer, nor do we represent that any of our findings include, matters of a legal or accounting nature. We have relied on information provided by Hengtai and Shanxi Puhua regarding land tenure, legal rights held, and ownership. We have not independently researched land and/or coal certificate rights, nor have we reviewed or verified the ownership or structure of the various entities with interests in Hengtai. BOYD's independent analyses of the available data have been developed in a manner consistent with industry standards and engineering practices. We believe our conclusions are reasonable assessments of the information provided.

The ability of the mine operator to achieve the projections contained in this report is dependent on numerous factors that are beyond the control of, and cannot be anticipated by, BOYD. These factors include mining and geologic conditions, the capabilities of management and employees, the securing of required approvals and permits in a timely manner, etc. Unforeseen changes in regulations could also impact performance, although we believe all findings and conclusions to be reasonable, we do not warrant this report in any manner, express or implied.

While this report addresses technical (e.g., reserve, mining, etc.) matters, qualified legal expertise is required to verify existing exploration and mining rights to the various areas. BOYD is not qualified to assess PRC legal matters and does not purport to offer a legal opinion on the status of ownership/control, and/or the right to mine.

Following this page is Figure 1.1, General Location Map Showing Nianpanliang Mines, Coal Measures, Railways, and Ports.

Respectfully submitted,

JOHN T. BOYD COMPANY
By:

Donald S. Swartz
Senior Mining Consultant

Zhao Liang
Manager of Technical Services – China

Edward Mast
Senior Geologist

David Zhong
Managing Director – China

James F. Kvitkovich
Vice President

Ronald L. Lewis
Managing Director and COO

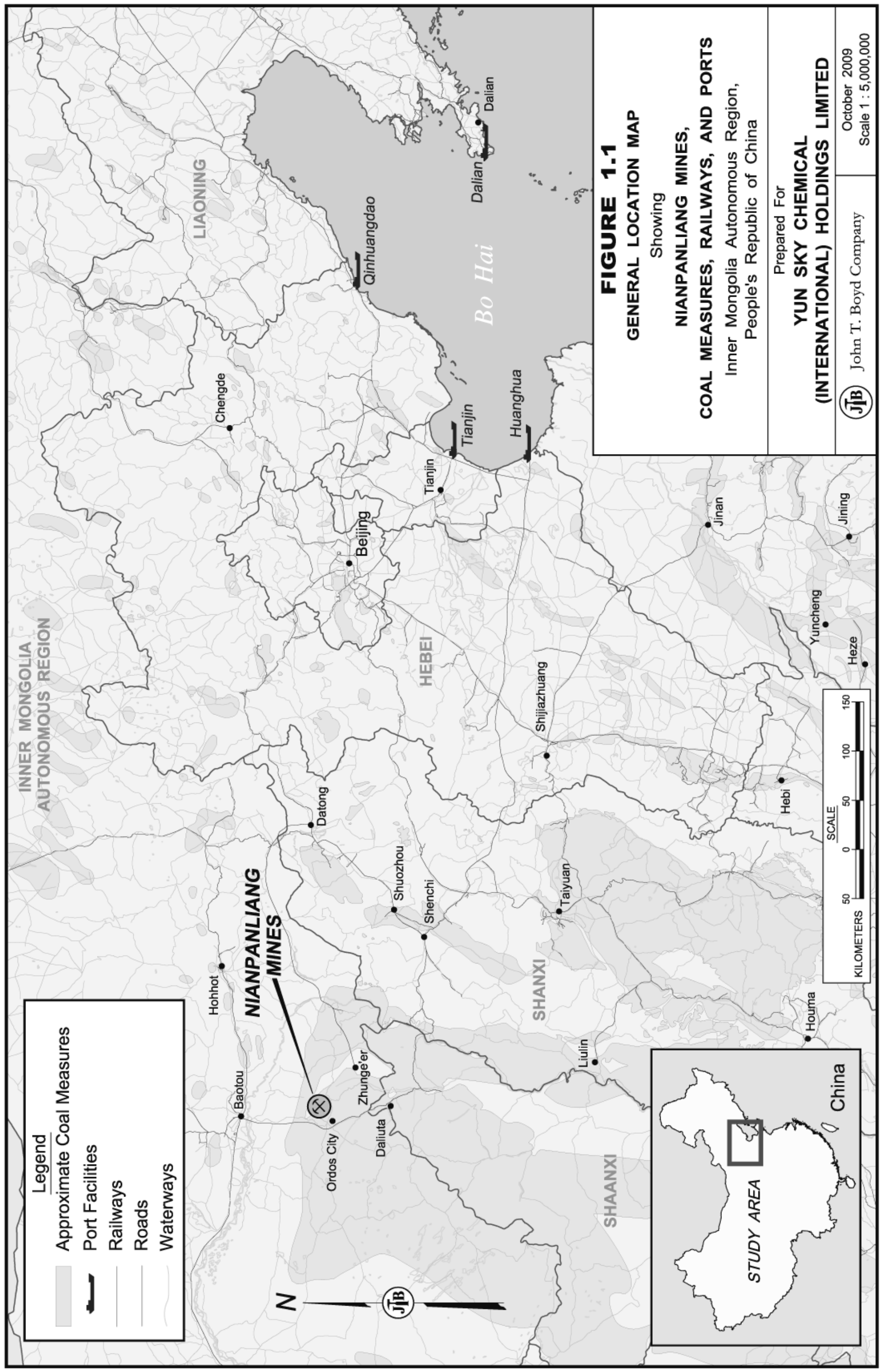


FIGURE 1.1
GENERAL LOCATION MAP
Showing
NIANPANLIANG MINES,
COAL MEASURES, RAILWAYS, AND PORTS
Inner Mongolia Autonomous Region,
People's Republic of China
Prepared For
YUN SKY CHEMICAL
(INTERNATIONAL) HOLDINGS LIMITED
JTB John T. Boyd Company
October 2009
Scale 1 : 5,000,000
Legend
Approximate Coal Measures
Port Facilities
Railways
Roads
Waterways
N
NIANPANLIANG
MINES
INNER MONGOLIA
AUTONOMOUS REGION
LIAONING
HEBEI
SHANXI
SHAANXI
Bo Hai
Qinhuangdao
Dalian
Tianjin
Huanghua
Chengde
Beijing
Jinan
Jining
Yuncheng
Heze
Shijiazhuang
Hebi
Datong
Shuozhou
Shenchi
Taiyuan
Hohhot
Baotou
Zhunge'er
Ordos City
Daliuta
Liulin
Houma
SCALE
KILOMETERS
50
0
50
100
150
STUDY AREA
China

2.0 SUMMARIZED FINDINGS

2.1 Introduction

The Nianpanliang Project area is located in the Dongsheng Coalfield of Inner Mongolia and within the Ordos City prefecture-level division, 3 km northwest of Dongsheng Town. The Project comprises two areas planned for mining by Hengtai. The northern area is designated as No. 1 Mine; and the southern area is designated as No. 2 Mine. The Nos. 1 and 2 mining right areas encompass 3.6 km^2 and 3.4 km^2, respectively. An adjacent uncontrolled area (No. 3 Mine) separates the controlled mine areas.

Coal will be produced using commercially proven underground methods and practices. The No. 1 Mine is presently operating. Construction schedule for the No. 2 Mine is determined by the approval for the No. 3 Mine Area mining right certificate. Hengtai controls the mining rights for No. 1 Mine and No. 2 Mine areas. The authorized output capacity is 2.4 Mtpa for the No. 1 Mine and 1.2 Mtpa for the No. 2 Mine.

The principal findings of this study are summarized in this chapter and are supported by the body of this report. This section presents the major findings regarding coal resources, mine operation, future mine plan, and environmental overview. Technical descriptions and discussion of mine facilities, operating practices, future mine plans, etc., can be found in their respective sections.

2.2 Conclusions

Based on our independent review and our experience relative to other Chinese coal projects, BOYD offers the following conclusions.

BOYD has not identified significant geological or mining-related issues during our review that would prevent the planned No. 1 and No. 2 mines from achieving projected raw coal output levels. Our mine plan analysis assumes timely approvals for the planned higher output capacities and approval for acquisition of the No. 3 Mine area mining rights. We believe it is reasonable to project that Hengtai will be successful in its application for the No. 3 Mine Area mining right certificate, which would authorize its planned mining operation, although this view should not be considered as a guarantee of the applications approval. While Nianpanliang is projected to be a viable project, delays and disruptions to production resulting from unpredictable factors, such as geology and mining conditions, can have significant impacts upon operating results.

Mining conditions appear to be favorable with low methane and water infiltration. No faults, folds, or intrusions were identified by the exploration programs. One area for concern is the portions of the mine plan where LW faces operate with less than 50 m of cover; mining operations may experience difficulties with the roof and water in these areas. Mining in the areas of this deposit with more than 50 m of cover are not expected to experience issues relating to shallow overburden depth.

Barrier pillars will be maintained beneath protected surface features. While development roadways may cross through the barriers, faces must bypass the barriers in order to avoid subsiding the overlying surface. In the No. 1 Mine, a barrier is maintained beneath the north-to-south-oriented 110-kV power transmission line, in addition to a barrier beneath the mine's surface facilities. The barrier beneath the 110-kV line will continue into the No. 2 Mine area, where a 220-kV line and the Dongsheng Beltway (highway) also require barriers to be left in this area. A second 110-kV line requiring barrier support intersects the northeastern portion of No. 1 Mine area.

2.3 Geology and Resources

2.3.1 Geology and Geologic Setting

The Nianpanliang area has rugged terrain consisting of gulches and valleys with little vegetation. The primary surface waters in the vicinity of the study area are the Hashila River and the periodic flow found in the Naling Valley. The geology of the Nianpanliang coal deposit is simple. The coal strata are nearly flat, with only a 0- to 2-degree dip. Faulting has not been observed or detected within the mine area boundaries.

There are several coal seams underlying the mining area. The major coal seams are the Nos. 3-1U, 4-1, and 6-2. Secondary seams include the Nos. 2-1L, 2-2, and 5-1U. Mining is limited in some seams due to shallow depth of cover or insufficient seam thickness.

2.3.2 Mining Rights

Hengtai's mining rights extend for 15 years from February 2007 for the No. 1 and No. 2 mines. The mining rights specify an output capacity of 1.2 and 1.2 Mtpa for the Nos. 1 and 2 mines, respectively. Applications for approvals of output capacities matching the higher mine plan output projections have been made by Hengtai. Mining right certificates are summarized as follows:

Mining Right Area	Mining Right Certificate No.	Authorized Output Capacity *(Mtpa)*	Authorized Mining Elevation *(m)*	Mining Method	Area *(km^2)*	(Month/Year) Mining Right Permit Grant Date	Mining Right Validity
No. 1 Mine	1500000730039	1.2*	1,400-1,160	UG	3.556	2/2007	2/2022
No. 2 Mine	1500000730038	1.2	1,400-1,170	UG	3.3911	2/2007	2/2022

* *The Coal Industry Bureau of Inner Mongolia approved the expansion of the No. 1 Mine to 2.4 Mtpa on 19 December 2007 with the condition that the mine successfully completes its test start-up period. The mine completed its test period in November 2009.*

We assume that the mining rights will be renewed.

2.3.3 Resources and Reserves

BOYD has prepared independent resource and reserve estimates for the coal seams in the deposit compliant with the JORC Code based upon exploration drill hole spacing. The exploration drill hole spacing is sufficient to classify resources into the Measured category and reserves in the Proved category. An inventory of coal resources by mine area (Nos. 1, 2, and 3) is summarized below:

Coal Resources >0.8 m Thick

		Mt	
Mine No.	**Hectares**	**All Seams**	**Mineable Seams**
1	824.8	89.18	57.83
2	646.8	92.48	75.62
3	206.3	22.21	13.20
Total	1,677.9	203.87	146.65

The coal within the No. 3 Mine boundary is currently considered a resource, as the mining rights have not been acquired; these tonnes would be considered reserves once the mining rights are obtained.

Coal reserve estimates are as follows:

	Mt		
	In Situ Measured	**Proved Reserves**	
Mine No.	**Resources**	**Recoverable**	**Marketable**
1	48.36	30.06	28.84
2	59.20	41.80	39.58
Total	107.56	71.86	68.42

After the Mining Rights to the No. 3 Mine area are acquired, an additional 6.63 Mt can be added to the reserve tonnages.

2.3.4 Coal Quality

The Nianpanliang coals are classified internationally as bituminous and, according to the Chinese classification system, as long flame coal (CY_{41}) and are highly suited for the steam and thermal coal markets. BOYD's estimates of raw coal quality for the Nianpanliang mines assume 0.1 m of out-of-seam dilution (OSD), resulting in the following projected run-of-mine (ROM) qualities:

Seam	Moisture % (ad)	Ash % (dry)	VM % (daf)	Sulfur % (dry)	P % (dry)	CV (ad) (Kcal/kg)
			No. 1 Mine			
3-1U	11.8	12.3	35.1	0.9	0.002	6,330
4-1	11.2	10.4	36.7	1.1	0.002	6,540
6-2	10.9	16.1	32.6	1.4	0.034	6,199
			No. 2 Mine			
2-1L	14.0	16.4	34.0	0.9	0.002	5,930
2-2	14.2	13.6	35.4	1.0	0.004	6,210
3-1U	13.7	12.9	35.2	1.0	0.001	6,240
4-1	13.9	10.4	36.5	1.2	0.003	6,560
5-1U	13.8	15.3	33.5	0.5	0.002	6,210
6-2	12.4	14.9	32.4	0.6	0.012	6,240

2.4 Mine Operation

2.4.1 General Plan

The general plan for the Nianpanliang Mine Project is the development of two coal mines, connected underground by roadways and infrastructure supporting the operation of four LW faces. No. 1 Mine with three recoverable coal horizons (Nos. 3-1U, 4-1, and 6-2) has three incline openings for access at the mine's surface complex. The workforces for both mines will use the facilities at the No. 1 Mine complex; separate facilities for the No. 2 Mine are not proposed in the current plan. The No. 1 Mine complex also serves as the logistical base for supplies, parts, materials, equipment, etc., for both mines. The No. 1 Mine will have two fully-mechanized (FM) LW faces, four roadheader faces for gate development, and two conventional drill and blast faces for main roadway development.

The No. 2 Mine is situated to the south of the No. 1 Mine. Current plans are to extend the three main roadways from No. 1 Mine due south to No. 2 Mine. Two of the three roadways in the No. 2 Mine extend due south to the limit of the No. 2 Mine mining right boundary, where two incline openings may be developed for return ventilation and belt conveyor access to the coal stockpile yard at the Guodian power plant. The No. 2 Mine belt conveyor system is capable of being reversed upon completion of the incline construction, if No. 2 Mine output is dedicated to the power plant. The No. 1 Mine output continues to be conveyed to the No. 1 Mine main facility. Primary coal seams for mining are the Nos. 3-1U, 4-1, and 6-2; secondary seams for mining are the Nos. 2-1L, 2-2, and 5-1U. The No. 2 Mine will have two FM LW faces for production, two roadheader faces for gate development, and two conventional drill and blast faces for main roadway development, with a projected output capacity of 2.4 Mtpa. Hengtai must secure the mining rights to the No. 3 Mine in order to execute its mine plan. We believe it is reasonable to project that Hengtai will be successful in its application for the No. 3 Mine Area mining right certificate, which would authorize its planned mining operation, although this view should not be considered as a guarantee of the applications approval. Hengtai could alternately access the No. 2 Mine reserves with openings independent of the No. 1 Mine openings.

2.4.2 Construction Status

Construction of Mine No. 1 began in October 2006. The first FM LW face began test period operation in December 2008. The mine completed its test period in November 2009. Development for the LW face in the thick No. 4-1 Seam is under way; currently crews are developing the bottom station (transformer station, bunker/bin, sump, pump station, etc.). Construction schedule for the No. 2 Mine is determined by the approval for the No. 3 Mine Area mining right certificate.

2.4.3 Mine Services

The No. 1 Mine has three incline slope entrances consisting of a main production incline, a service incline to provide access for personnel and materials, and a ventilation incline for return air exhaust. Underground coal haulage will be accomplished by a network of conveyor belts that feed onto the large belt in the main incline. Rubber-tired diesel vehicles will be used underground to transport personnel and materials (operating supplies). Rubber-tired vehicles have the potential to be more efficient than the narrow gauge rail systems commonly used in Chinese mines. The mines are interconnected, with the No. 1 Mine providing the logistical support for the No. 2 Mine operation; all personnel for both mines report to the No. 1 Mine facilities. The No. 2 Mine will have two incline openings located at its southern boundary for belt conveyor and return air ventilation. The No. 2 Mine belt conveyor system will terminate in the coal stockpile yard at the Guodian power plant, if the mine is dedicated to the station.

2.4.4 Mining Operations

Mine services are adequately planned for the current conditionally approved No. 1 Mine 2.4 Mtpa output capacity. The power and belt conveyor systems will require upgrading to attain the planned higher output levels. The mines are projected to operate approximately 300 to 330 days per year, with three 8-hour shifts per day. Two shifts are dedicated to coal production, with the third shift dedicated to maintenance and face preparation with limited production. Both mines are projected to use two FM LW faces sourced from domestic equipment manufacturers. High profile LW faces are under consideration for the thick No. 4-1 Seam in place of sublevel caving LW faces sourced from domestic equipment manufacturers. Development of the mines' main roadways and longwall gate roads is accomplished with roadheader and conventional drilling and blasting. Roadheaders develop the gate entries while drilling and blasting faces develop the main entries.

2.4.5 Coal Processing and Quality

Raw coal screening and hand picking (to remove larger rock from the ROM material) are planned for preparing the raw coal for market. We anticipate screening and hand picking may reduce the ROM ash content by three to five percentage points. Actual results at Nianpanliang will depend on in situ coal quality and seam roof and floor conditions (i.e., the amount of out-of-seam rock dilution recovered during the normal mining process). While raw coal screened quality is difficult to project, the planned screening process will upgrade the ROM product by eliminating the larger rock fragments. Coal is transported to market (local and regional generators) by truck and belt conveyor system. ROM production from Nianpanliang is expected to have a 300-mm top size with the following size distribution based on 50-mm sizing:

Product Distribution

Size	**Proportion** *(%)*
Coal 300-50 mm	24
Coal <50 mm	75
Refuse	1

2.5 Future Mine Plan

2.5.1 Mine Output

Hengtai projections increase the planned production capacity at both mines with upgrades in FM face equipment and by increasing the width of the LW faces from 150 m to 200 m at both mines. The start-up of LW face operations in the No. 1 Mine commenced in December 2008, with one FM LW face developed in close proximity to the incline bottom operating in the No. 3-1U Seam. A second FM LW face equipped with an upgraded shearer (replacing the current FM LW face) is projected to begin operation in the No. 1 Mine in late 2009. The FM LW face equipment currently in use in the No. 1 Mine will be utilized in the No.2 Mine. Installation of a high profile, FM LW face in the thick No. 4-1 Seam is planned in April 2010. No. 1 Mine output capacity of approximately 6.0 Mtpa is projected to be attained in 2011. Provided the higher output levels are approved, key infrastructure components will be upgraded to accommodate the higher output levels. Hengtai is reviewing installation of a Con-Mech face in the No. 5-1U and No. 5-1L seams.

Development of the No. 2 Mine hinges upon acquiring the mining rights for the No. 3 Mine Area. Initial LW installation will be expedited by utilizing established underground development from No. 1 Mine. Tonnage projections and mine timing was not provided for the No. 2 Mine during our July 2009 site visit.

The mine's infrastructure does not support simultaneous operation of two high capacity FM LW systems. Regulatory approval of production expansion will be needed before infrastructure upgrades and belt projects will begin. BOYD believes the construction and production buildup schedule as projected is optimistic.

2.5.2 Nianpanliang Output

Projected Nianpanliang coal output projections, based on BOYD No. 1 Mine scheduling and the assumption that the mining rights for the No. 3 Mine area are acquired by mid-2010 and the No. 2 Mine is developed in a timely manner, are as follows:

	BOYD Output Projections (Mt)		
	No. 1	**No. 2**	**Total**
2009	1.4*	–	1.4
2010	4.4	–	4.4
2011	5.6	0.6	6.2
2012	5.4	1.5	6.9
2013	4.0	2.4	6.4

* *Full year output projection.*

BOYD's No. 2 Mine projections assume that initial LW face production is in mid-2011.

Hengtai is projecting much higher output levels than the current conditional authorization of 2.4 Mtpa at the No. 1 Mine and 1.2 Mtpa for the No. 2 Mine. We agree that the higher output levels are attainable, provided the key infrastructure components are upgraded for the higher output levels. For a new mine or a mine that has been upgraded, normal practice is to operate three years before applying for an increase in output capacity with the relevant regional authorities. Hengtai believes this waiting period can be shortened to as little as a year after the mine test period is successfully completed. The test period was completed in November 2009.

A more substantive issue with increasing mine output is complying with mine service life requirements. According to Chinese industry regulations (Ministry of Construction and State Quality Supervision & Quarantine Bureau), an existing coal mine that undergoes upgrading (or expansion) generally must have a resource base that supports service lives longer than projected for Mine No. 1.

2.5.3 Labor Force

BOYD staffing projections for Nianpanliang No. 1 and No. 2 mines at full capacity are as follows:

Category	No. 1 Mine	No. 2 Mine
Production Workers		
Underground	761	715
Surface	197	138
Subtotal – Production Workers	958	853
Management	39	31
Service	40	40
Total	1,037	924
Underground Labor Productivity		
Raw Tonnes/Employee-Year	6,400*	3,350

* *Average over period 2010-2013.*

2.5.4 Capital Spending

A breakdown of projected capital spending as provided by Hengtai for the No. 1 and No. 2 Mines in the period 2009-2011 is as follows:

	RMB (millions)			
Description	**2009**	**2010**	**2011**	**Total**
Surface Facilities	3.5	38.0	–	41.5
Underground Construction	2.8	33.0	–	35.8
Machinery and Electrical Equipment	1.8	16.0	–	17.8
Production Equipment	30.0	140.0	–	170.0
Monitoring Equipment	–	1.8	–	1.8
Miscellaneous Equipment	–	16.0	–	16.0
Equipment Installation and Other	–	80.0	30.0	110.0
Resource Fee	–	60.0	–	60.0
Total	38.1	384.8	30.0	452.9

Initial capital expenditures shown above are primarily for construction of the No. 2 Mine. Additional monies may be required to complete the production equipment requirements for the No. 1 and No. 2 mines, including high profile FM LW faces and the associated underground development and material handling equipment, i.e., additional roadheader faces, conveyor drives and belting materials, and electrical distribution cables and power centers. The No. 2 Mine capital spending projections are consistent with the FSR and previous Hengtai projections and may be somewhat understated. A 15% contingency is recommended.

For No. 1 Mine, BOYD estimates that the mine will require approximately RMB30 million per year in sustaining capital in order to support infrastructure projects, mine extensions, replacement of minor capital items, etc. Similar provisions apply to the No. 2 Mine capital projections.

2.5.5 Operating Costs

Operating cost projections for the mines at the planned higher output levels were not provided for this review. BOYD's estimate of No. 1 Mine operating costs (excluding financial expenses) for the first five years of mine operation (2009 [Aug.-Dec.] -2013) based on BOYD output projections are shown below.

Raw Coal Output Tonnes (Mt):	1.40	4.40	5.60	5.40	4.00
	RMB/Raw Tonne				
	2009	**2010**	**2011**	**2012**	**2013**
Operating Costs					
Cash					
Mine Operating	52.3	37.4	32.1	34.3	45.4
Sustainable Development Fund	26.0	26.0	26.0	26.0	26.0
Other	23.9	18.3	16.2	16.6	19.3
Subtotal – Cash	102.2	81.7	74.3	76.9	90.7
Non-Cash					
Depreciation/Amortization	16.7	11.4	8.9	9.3	12.5
Production Maintenance Fee	5.5	5.5	5.5	5.5	5.5
Safety Fund Fee	6.0	6.0	6.0	6.0	6.0
Subtotal – Non-Cash	28.2	22.9	20.4	20.8	24.0
Total	130.4	104.6	94.7	97.7	114.7

- The Environmental Recovery Guarantee Fund (not reflected above) is a newly mandated fund in 2006 for Inner Mongolia, effective 2008 requiring mine operators to pay a certain amount to be used under the supervision of the government for the purpose of funding environmental projects related to coal mining activities. We anticipate that this fund cost will be passed through to customers of Inner Mongolian mines, and will not reduce mine profit margins.

- The Coal Price Adjustment Fund (not reflected above) is newly mandated for Inner Mongolia in 2009. Starting in July 2009, RMB15 per tonne will be collected for long flame coal produced from Inner Mongolia. We anticipate that this fund cost will be passed through to customers of Inner Mongolian mines, and will not reduce mine profit margins.

- The Development Fund for Mine Transition (not reflected above) is also a newly mandated fund in 2006 for Inner Mongolia Autonomous Region. Effective in 2007, this fund requires mine operators to pay a fee for the purpose of developing employment in non-mining industries, technical training and social welfare.

We anticipate that this fund cost will be passed through to customers of Inner Mongolian mines, and will not reduce mine profit margin.

- Safety Fund and Production Maintenance ("Keep Simple Production") fees are generally considered as non-cash cost accruals (according to GAAP) for income tax calculations, although the monies may be utilized for mine-related projects.

2.5.6 Pro Forma Cash Flow

BOYD's pro Forma Cash Flow analysis indicates a net cash flow after PRC taxes of RMB312 million and RMB550 million in 2010 and 2011, respectively.

2.6 Environmental Overview

Appropriate environmental protection measures in accordance with national environment protection laws are planned and under way and are regarded as being comparable to similar mining enterprises in China. There do not appear to be environmental constraints to future coal mining operations. In BOYD's opinion, environmental protection measures planned and under way for the Nianpanliang mines comply with applicable Chinese requirements for environmental protection related to coal mining activities and follow World Bank policies for responsible environmental management. The planned environmental management office had not been established at the time of our visit.

3.0 GEOLOGY AND RESOURCES

3.1 Nianpanliang Project Area

The Nianpanliang Project area is located in the Dongsheng District of Ordos City on the eastern edge of the Maowusu Desert. The loess plateau surface consists of crescent and hummocky sand dunes. Surface elevation typically ranges from 1,350 m to 1,500 m with a maximum relief of greater than 90 m.

The Nianpanliang Project includes three mine areas designated by number as Nianpanliang Nos. 1, 2, and 3 mines. The three areas are adjacent, with the No. 1 Mine as the northernmost area, followed by No. 3 Mine and then No. 2 Mine on the southern end of the project area. The Nianpanliang Project area measures approximately 3.0 km east to west, and 5.5 km from north to south, covering an area of approximately 10.1 km^2 (1,012 hectares).

While the boundaries for Nos. 1 and 2 mines appear to be well established according to the PDR and FSR documents, the coordinates for No. 3 Mine (situated between Nos. 1 and 2 Mines) are not. Based on mapping of the coordinates for the adjacent Wumeiniu Mine (Figures 3.5 to 3.7, following this text), we established the boundaries for the No. 3 Mine area. A check of the No. 3 Mine coordinates with relevant authorities is recommended. A minor conflict in boundary coordinates between the Wumeiniu Mine and the No. 1 Mine area was found during our review, but the apparent overlap has no consequential impact on the resource and reserve estimates or mine planning.

No. 1 Mine measures approximately 1.8 km from east to west and 2.1 km from south to north, the area is 3.5 km^2 (355 hectares). No. 2 Mine measures approximately 1.9 km from east to west and 1.8 km from south to north, encompassing an area of 3.4 km^2 (339 hectares). No. 3 Mine is 1.4 km from east to west and 0.6 km from south to north, encompassing an area of 0.9 km^2 (92 hectares). Owing to its smaller size, it is likely that the No. 3 Mine area will be added to Nos. 1 and 2 mines.

The climate is typical of that part of the PRC; it has a semi-desert continental environment characterized by hot summers and long cold winters, has minimal rainfall, and is cool and rainy in the fall and dry and windy in the spring. Annual precipitation ranges from 20 cm to 70 cm, averaging about 33 cm. The prevailing wind direction is from the southeast at an average speed of 3.2 m/s.

The major surface water features are the Naling Valley in the east and the Hashila River in the western portion of the project area. Surface waters drain into Naling Valley during the entire year, but in significantly lower quantities in the dry season, while flash flooding can occur in the rainy season. The Hashila River drains into the Huanghe River.

The area is generally free of habitation (villages, etc.). The Dongsheng Beltway (highway) and two major power lines traversing the surface overlying the project area pose restrictions on mining activities.

Prior mining activities are confined to the No. 1 Mine area and include a small openpit mine operated by a local company (now inactive) in the No. 2-2 Seam. Coal was mined on the north side of the No. 1 Mine area along the outcrop of the No. 2-2 Seam. The disturbed area approximates 2 hectares. (See figure 3.4 [Map Showing No. 2-2 Seam Resources] for the approximate location of the openpit mine.) Mine mapping provided by Hengtai also shows several small underground mines, also situated in the No. 2-2 Seam. There are no historical records of the coal produced from the area, or when it was produced. Other than these instances, there have been no significant mining activities in the Project areas. The No. 2-2 Seam is not considered as a recoverable resource in the Nianpanliang No. 1 Mine area, so this past mining disturbance has no impact on the resource estimates.

3.2 Mining Rights

3.2.1 Overview

Coal in the PRC is owned by the central government, as established in the PRC Mineral Resources Law. The law and related Administrative Measures on the Mineral Resources Production Registration, which governs certain aspects of mineral and coal resources control for exploitation (including the granting of new and the renewal of existing mining right permits), are administered by the Ministry of Land and Resources (MLR). Exploration right permits, mining right permits, and land use rights are granted by the MLR or relevant provincial (or autonomous region) mineral resource bureau, before exploration or mining operations can be undertaken in defined mining right areas. Mining right permits are granted for specified periods of time, after which the rights may be extended upon application.

3.2.2 Mining Rights Review

Hengtai is the holder of record for the No. 1 and No. 2 area mining rights. We have not completed an independent legal evaluation of the status of the mining rights but we have reviewed the documentation. By PRC law the maximum holding period (term) for a mining right permit is 30 years, although Hengtai's smaller mining right areas have shorter holding periods. The MLR or relevant provincial regulatory body has the legal authority to renew an existing mining right area that is expiring. It is typical practice in other major coal-producing nations for governments to extend the term of the mining rights for the economic life of the reserves. We have assumed that Hengtai's mining rights will be renewable for the life of the resources for the purposes of our estimates.

Hengtai's mining right certificate holding periods appear to follow typical practices of relatively short holding periods for smaller, non-state-related mines. The maximum mining right holding period in China for coal is 30 years, but this is usually only accorded to the former central state-related mining enterprises. Mining rights rollover is a legal issue that is evolving in China due to the coal industry's restructuring and the need for legal certainty.

It is reasonable to assume that Hengtai's mining rights will be renewed upon expiration. According to Chinese law governing natural resources, the owner of mining rights has priority to renew or extend its mining rights if mineable reserves remain at expiration of the mining right holding period. While not a large coal producer, the company has significant production assets and has the financial and organizational resources to successfully mine these areas in an orderly fashion thereby achieving maximum reserve recovery. The central and provincial governments are moving in the direction of consolidating mining operations, particularly local mines, to promote health and safety improvements and to create more efficient mining operations. For these reasons, we believe it likely that Hengtai will receive mining right renewals. Transfer of mining rights to a third party requires provincial or autonomous region approval.

Hengtai has mining rights for 14 years from February 2008. The mining rights specify an output capacity of 1.2 Mtpa for the No. 1 Mine and 1.2 Mtpa for the No. 2 Mine. Hengtai is seeking approval for higher output capacities matching the mine plan projections. The mining right certificates are summarized as follows:

						(Month/Year)	
Mining Right Area	Mining Right Certificate No.	Authorized Output Capacity	Authorized Mining Elevation	Mining Method	Area	Mining Right Permit Grant Date	Mining Right Validity
		(Mtpa)	*(m)*		*(km^2)*		
No. 1 Mine	1500000730039	1.2*	1,400-1,160	UG	3.556	2/2007	2/2022
No. 2 Mine	1500000730038	1.2	1,400-1,170	UG	3.3911	2/2007	2/2022

* *The Coal Industry Bureau of Inner Mongolia approved the expansion of the No. 1 Mine to 2.4 Mtpa on 19 December 2007 with the condition that the mine successfully complete its test start-up period. The mine completed its test period in November 2009.*

3.3 Geology

The overall geologic setting of the Nianpanliang Project is simple. The project is located in the southwest part of the Dongsheng-Shenfu Coalfield, and the coal-bearing strata are contained in the Jurassic-age Yan'an Formation. The Yan'an Formation is overlain by the Jurassic Anding and Zhiluo Formations, which are non-coal bearing. The Jurassic formations are overlain by the Cretaceous-age Zihdan Group strata. These strata are overlain by 70 m to 170 m of Quaternary-age wind-blown sand of the Maowusu Desert.

The structure of the coal-bearing strata is essentially flat lying with a 0 to 2 degree dip to the southwest. The regional strike of the formations is generally north to south. No faulting has been observed or detected in available exploratory drilling.

Strata in the Yan'an formation consist primarily of sandy mudstones and siltstones. Roof strata are classified by Team 117 as of medium stability. The mudstone floor of the seams deforms when wet; however, mining conditions are expected to be relatively dry. Coal dust from mining operations is explosive, and the coal seams are subject to spontaneous combustion. Methane liberation is expected to be low to moderate. Rock strata temperature gradient is normal for the deposit depth.

Team 117 named 11 coal seams in the Yan'an Formation, 6 of which are considered potentially mineable. As shown on Figure 3.1, following this text, the named seams of the deposit are the Nos. 2-1U, 2-1L, 2-2, 3-1U, 3-1L, 4-1, 4-2, 5-1U, 5-1L, 6-1, and 6-2. The remaining seams are thinner and erratic in occurrence.

3.4 Resource Evaluation Data

3.4.1 Geologic Report

Team 117 conducted exploration work in the Nianpanliang mine areas and developed the geologic interpretations based on that information. BOYD was provided with detailed data from Team 117's December 1989 geologic report, as well as additional drilling exploration completed after the report was prepared.

Data from available studies include:

1. Exploration report.

2. Geologic data, including tables detailing available seam thickness and depths.

3. Resource tonnage tables.

4. Mine plan maps for No. 1 Mine.

5. Other information.

The exploration geologic report contains information for the following items:

1. Location and Geography.

2. Regional Geology, Mine Geology, and Coal Seam Geology.

3. Coal Quality.

4. Hydrology.

5. Engineering Geology.

6. Exploration Status.

7. Resource Assessment.

8. Resource Calculations.

The reports also contain supporting maps, cross sections, and figures.

Resources are defined by exploration drilling. Typical drill hole data include:

1. Drill hole logs.

2. Geophysical logs.

3. Coal analyses.

3.4.2 Exploration Drilling

Regional geologic formation contacts have been mapped throughout the area. However, a mantel of wind-blown loess (that can be up to hundreds of meters thick) covers the region, making coal outcrops relatively uncommon and difficult to accurately map. Coal seams and geologic structure are identified through drilling exploration boreholes. There were three exploration programs in the region undertaken at the direction of the PRC government. Team 117 was responsible for all exploration work on the Nianpanliang areas. The first, in the 1968-1970 time frame, was regional in nature, completing 36 widely spaced exploration holes over an 11,000 km^2 area. None of these holes were on the Nianpanliang project area as defined presently, but the drilling results suggested that the area would be a suitable candidate for additional exploration. From 1979 through 1983, drilling continued in the Tongjiang Chuan region, as it was then called (of which Nianpanliang comprises a small part). During that program, 25 holes were completed in the 8 km^2 area now defined as the Nianpanliang Project Area. Because of the positive results in the 1979-1983 exploration program, a detailed exploration program (consisting of an additional 19 holes [third phase of drilling]) was commissioned by the PRC government, culminating in Team 117's 1989 exploration, geology, and resource report. There has been no additional exploration work in the project area since 1989.

Twenty-eight of the holes were drilled on the Nianpanliang area, and the remaining 16 were drilled sufficiently close that they were used by BOYD to develop the computer-generated geologic model of the deposit.

Area	**Drill Holes**
No. 1	16
No. 2	8
No. 3	4
Adjacent	16
Total	44

Exploration data used to create the computer geologic and mining models for the No. 1 and No. 2 mines include the 44 drill holes that were either on or adjacent to the No. 1 and No. 2 mines. Typical drill hole data includes:

1. Drill hole logs.

2. Geophysical logs.

3. Coal Analyses.

All drill holes were geophysically logged at the completion of the drilling. BOYD checked the geophysical logs, coal seam thickness interpretations, depths, and elevations. Drill hole summary table data, including drill hole coordinates, top and bottom seam depths, and coal seam thicknesses, were used to develop a computer model of the resource in SurvCADD geological modeling software. Software output includes coal seam isopach mapping, structure mapping, depth of overburden, and cross sections through the deposit.

Team 117 prepared in-place resource tonnage estimates for each seam in each resource area (Nos. 1, 2, and 3 mines) according to Chinese standards. Under these standards, all seams greater than 0.8 m in thickness are included in the resource tonnage estimates. Team 117 geologists used the standard polygon method to define individual area subdivisions for calculation of in-place resources.

BOYD reviewed the in-place resource estimates prepared by Team 117. However, some additional drilling has taken place since the 1989 report, and the area boundaries have changed. BOYD re-evaluated the data and estimated resources based on the updated information. To prepare JORC compliant resource estimates for the deposit, BOYD used more conservative seam limit criteria and methods to define the reserve areas by seam by degree of geologic reliability.

3.5 Seam Description

The uppermost seam in the stratigraphic column (see Figure 3.1) is the No. 2-1U Seam. The No. 2-1U Seam thickens from north to south. In the Nos. 1 and 2 mine areas, the seam is typically around 0.7 m thick. In the No. 2 Mine area, the 2-1U ranges from 0.5 m to over 2.3 m in thickness, averaging around just over 1 m in thickness. The seam is under less than 50 m of cover and outcrops in the No. 1 Mine area.

Approximately 14 m below is the No. 2-1L Seam. The No. 2-1L seam also thickens from north to south, ranging in thickness from less than 0.5 m to over 3.3 m, and averaging about 1.7 m thick in the No. 1 Mine area to the north and 2.1 m thick in No. 2 Mine. The No. 2-1L Seam is the uppermost recoverable seam, and is recoverable in both the Nos. 1 and 2 mine areas. In the No. 1 Mine area the mineable part of the seam ranges from 1.3 m to 2.5 m, averaging approximately 1.6 m overall. In the No. 2 Mine area, the seam ranges from 2.0 m to 3.3 m in thickness and, where thick enough to mine, is overlain by 50 m or more of cover.

Approximately 12 m below the No. 2-1L Seam lies the No. 2-2 Seam. The No. 2-2 Seam in the No. 1 Mine area averages around 2.1 m thick, ranging from 0.5 m to over 2.5 m. The No. 2-2 Seam gradually thickens to the south, and in the No. 2 Mine area averages in thickness of 2.3 m, ranging from 2 m to 4.5 m. The No. 2-2 Seam is recoverable only in the No. 2 Mine area. Where the seam is less than 2 m, greater OSD is anticipated in these areas. In the No. 1 Mine area, the No. 2-2 Seam is generally either too thin to mine, erratic in thickness, or under insufficient (less than 30 m) cover to mine. The No. 2-2 Seam is a split seam with an in-seam rock parting up to 0.6 m in thickness. Typically the upper bench is sufficiently thick for underground mining operations; however, where the parting thins, both benches may be recovered as a single mining unit. To maintain a minimum mining height, parting may be taken with the coal seam.

The No. 3-1U Seam (Figure 3.3, following this text) occurs 30 m below the No. 2-2 Seam. The No. 3-1U Seam is fairly consistent in thickness throughout the area ranging between 2.5 m and 3.7 m, and averages just over 3 m thickness throughout. Partings up to 0.3 m are common in the thicker sections of the seam. The lower split of the seam (No. 3-1L Seam), occurs 0.1 m to 1.4 m (averaging 0.6 m) below the No. 3-1U. The No. 3-1L is fairly consistent in thickness throughout the project area, ranging from 1.0 m to 1.8 m thick, and averaging approximately 1.4 m in thickness. The No. 3-1U Seam is the uppermost of the coal seams within the boundaries of the project area that does not outcrop. In the No. 1 Mine area the overburden cover is 30 m to 100 m thick, and from 100 m to just over 150 m in the No. 2 Mine area. Thus a portion of the seam occurrence falls below 50 m in cover depth, which may present mining recovery issues using longwall methods.

The underlying No. 4-1 Seam (Figure 3.4, following this text) lies 15 m to 40 m below the No. 3-1L, with an average of 24 m of interburden between the two seams. The No. 4-1 is the primary coal seam underlying the project area, ranging in thickness from 5.4 m to 7.1 m thick and averaging approximately 6.4 m. The No. 4-1 Seam is relatively free of thicker partings, although partings in the range of 0.1 m are common. In the No. 1 Mine area, the overburden cover ranges from 50 m to 125 m thickness and from 125 m to 225 m thickness in the No. 2 Mine area.

The No. 4-2 Seam ranges in thickness from 0.2 m to 1.0 m, averaging 0.8 m in thickness and is too thin to include as a resource.

The No. 5-1U Seam lies approximately 16 m below the No. 4-1 Seam, with interburden thickness range of 4-33 m. In the No. 1 Mine area, the seam averages just over 1 m thick, ranging from 0.5 m to 1.4 m. In the No. 2 Mine (and No. 3 Mine) areas, the seam averages 2.1 m thick, ranging from 0.6 m to 2.6 m. In the No. 2 Mine area, a persistent 0.10 m to 0.26 m thick parting occurs almost throughout and is included with the seam. The No. 5-1U Seam is too thin to mine in the No. 1 Mine area.

The lower split of the No. 5-1 Seam is the No. 5-1L. The interburden between the No. 5-1U and the No. 5-1L seams ranges from 1 m to 43 m, averaging 25 m. In the No. 1 Mine area, the seam has an average thickness of 2.1 m, ranging from 0.5 m to about 3.2 m. To the south in the No. 2 Mine (and No. 3 Mine) area, the seam has an average thickness of approximately 1 m, with a thickness range between 0.4 m and 2.8 m.

The lowest seam in the stratigraphic section for which resources have been estimated is the No. 6-2 Seam (see Figure 3.5). The No. 6-2 Seam occurs at average 39 m below the No. 5-1L Seam, with interburden thickness ranging from 20 m to 70 m. The No. 6-2 Seam is erratic (unstable) and has the largest range of coal thickness over the project area of any of the coal seams, ranging in thickness up to 6.2 m, with an average thickness of 2.4 m. In the No. 1 Mine area, the No. 6-2 Seam has an average thickness of 3.1 m and, in the No. 2 Mine area, an average thickness of 1.9 m. There is a persistent parting in the coal seam that ranges between 0.1 m and 0.3 m thick. In the No. 1 Mine area, the overburden cover ranges from 150 m to 225 m thick and in the No. 2 Mine area 225 m to just over 300 m in thickness. Because of its erratic nature, only the portion of the seam measuring 2 m to 3.5 m in thickness is recovered.

3.6 Resource and Reserve Classification

In reporting resources for the evaluation of mining properties, the major factor is the geologic assurance of existence. All classifications require that the degree of geological assurance of the subject coal's occurrence and definition be separated into various categories based on the spacing of points of observation (drill holes, mine measurements, and outcrop measurements).

The term resource is commonly used in the reporting of coal tonnage, but the usage or definition supplied to these terms can vary between parties. BOYD has prepared resource and reserve estimates for the Nianpanliang Project area using the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, also known as the JORC Code. The resource classification terminology of the JORC Code is found in the Glossary and Definitions section of this report.

In this report Measured, Indicated, and Inferred resources are defined by drill hole spacing. There is sufficient continuity of the seams underlying the project area that similar criteria for drill hole spacing were used for all coal seams, as follows:

- Measured resources – up to 750 m.
- Indicated resources – up to 1,500 m.
- Inferred resources – up to 4,000 m.

For the Nianpanliang Project area, all of the coal resources meet the drill hole spacing for the Measured classification. There are several drill hole locations that slightly exceed the 750 m spacing; however, due to seam continuity and the lack of structural issues, the affected resources are reported as Measured.

In reporting reserves for the evaluation of mining properties, most international classification systems require the deposit to be demonstrated to be both technically and economically mineable.

Mining rights to the deposit must also be controlled as of the date of reserve determination. According to documentation provided, Hengtai controls the Mining Rights for No. 1 Mine and No. 2 Mine areas. Hengtai has not secured the Mining Rights for the No. 3 Mine area. Therefore, coal in the No. 3 Mine area cannot be reported as reserves, but may be reported as resources. Once Hengtai secures the Mining Rights for No. 3 Mine, the coal resources can be re-classified as reserves.

In this report Proven and Probable reserves are the economically mineable part of a Measured and Indicated resource and include allowance for coal losses and diluting material. Because the drill hole spacing places the Nianpanliang Nos. 1 and 2 mine areas in the Measured resource category, the coal tonnage reported herein are in the Proven reserve category.

3.7 Resource and Reserve Estimation Criteria

3.7.1 Cover Depth

A 50-m cover depth is the minimum for LW mining operations and is based on international and Chinese industry experience. The relatively short LW face lengths projected for the FM faces are supportive of the shallower operating depths.

3.7.2 Specific Gravity

Average specific gravities used in estimating coal tonnages vary by seam and are shown in the following table:

Coal Seam	**Density Factor (Specific Gravity)**
2-1U	1.34
2-1L	1.33
2-2	1.32
3-1U	1.31
3-1L	1.30
4-1	1.29
4-2	1.30
5-1U	1.31
5-1L	1.33
6-2	1.39

OSD specific gravity is 2.3.

3.7.3 Coal Thickness

For all seams, except the No. 2-1L Seam, the minimum mining height, assuming FM LW methods, is 2.0 m. In the No. 4-1 Seam, sublevel caving LW methods may be utilized. Using sublevel caving methods, the initial LW shearer pass recovers 3.0 m of the seam in the LW face at a 100% recovery factor; the remaining seam column in the LW face exceeding 3.0 m is assumed to average a 70% recovery factor. Depending on thickness, total seam recovery varies. For a 6 m seam thickness, estimated overall vertical mining recovery is 85% for the LW face. Sublevel caving vertical coal recoveries in 6.0 m seams approximate the coal recoveries attained using a high profile FM LW face.

3.7.4 Surface Features

The Nianpanliang Project area has several surface features that must be protected from subsidence resulting from underground extraction, in particular LW mining techniques. These features include 110 kV and 220 kV power lines and the Dongsheng Beltway (highway). It is our understanding that villages have been, or will be, moved from the projected mining areas.

Coal losses due to barrier pillar requirements for surface infrastructure by seam have been accounted for, as shown in the following table:

	Barrier Pillar Criteria (m)*			
	Power Line Corridors		Dongsheng	
Seam	**110 kV**	**220 kV**	**Beltway**	**Villages**
2-1L	75	80	80	30-35
2-2	80	85	90	30-35
3-1U	90	95	100	30-60
4-1	95	100	105	45-70
5-1U	95	100	105	45-70
6-2	95	100	105	90-115

* *Barrier width as determined from limit of full extraction mining to the protected feature in all directions; that is a 110 kV power line could have barriers on both side each ranging in width from 75 m to 95 m, depending on depth.*

The surface land where the mines' surface facilities are sited would also be protected from underground subsidence impacts.

3.7.5 Mine Planning

BOYD developed LW mine plans for all mineable seams with sufficient mineable coal thickness and which are sufficiently extensive to permit reasonable, logical face layouts. Face layouts are columnized, that is, directly aligned over or under the key face layout in the No. 4-1 Seam. This seam is persistent and relatively thick throughout the mining right areas. The LW face layouts in the BOYD mine plan are the basis of our reserve estimates.

3.7.6 Raw Coal Adjustments

Coal reserve estimates reflect adjustment for mining recoveries and the addition of dilution materials OSD and spray water. OSD is projected at 0.1 m. Raw coal tonnage (coal, parting, and OSD) is increased by 2% to reflect in the addition of moisture during mining from spraying the coal for dust suppression. Marketable reserves assume 95% to 97% recovery of the raw coal, depending on seam thickness.

3.8 Coal Resources and Reserves

An inventory of coal resources by mine area (Nos. 1, 2, and 3 mines) is summarized as follows:

Inventory Coal Resources >0.8 m Thick

Mine No.	Hectares	Mt All Seams	Mt In Situ Mineable Seams
1	824.8	89.18	57.83
2	646.8	92.48	75.62
3	206.3	22.21	13.20
Total	1,677.9	203.87	146.65

The No. 4-1 Seam accounts for approximately 31% overall of the in-place coal resource, followed by the No. 3-1U Seam at 14%, and the No. 6-2 Seam at 13% of the in-place coal resource inventory.

Coal reserves for Nos. 1 and 2 mines total 68.4 Mt. Coal resource and reserve estimates for Nos. 1 and 2 mines are as follows:

Seam	Mine Plan Seam Thickness *(m)*	Measured Resources (Mt) In Situ	Proved Reserves (Mt) Recoverable	Proved Reserves (Mt) Marketable
		No. 1 Mine		
3-1U	3.3	10.46	7.59	7.21
4-1	6.3	24.68	13.82	13.39
6-2	3.2	13.22	8.65	8.24
		48.36	30.06	28.84
		No. 2 Mine		
2-1L	2.5	6.58	3.97	3.71
2-2	2.9	9.80	8.29	7.82
3-1U	2.8	9.21	7.57	7.12
4-1	6.6	21.67	13.26	12.82
5-1U	2.2	7.02	6.01	5.57
6-2	2.7	4.92	2.70	2.54
		59.20	41.80	39.58
Total		107.56	71.86	68.42

No. 3 Mine, as it is not controlled with Mining Rights, cannot be considered a Reserve. In the context of this report BOYD considers No. 3 Mine tonnages as Recoverable Resources, with coal tonnage as shown in the following table:

Seam	Measured Resources Mine Plan Seam Thickness (m)	Mt In Situ	Mt Recoverable	Mt Marketable
No. 3 Mine				
3-1U	3.1	3.63	2.73	2.59
4-1	6.3	5.65	4.18	4.04
		9.28	6.91	6.63

After the Mining Rights to the No. 3 Mine area are acquired, an additional 6.63 Mt can be added to the Reserve tonnages.

3.9 Coal Quality

Coal resources are classified as bituminous internationally and are to be utilized in the steam or thermal coal market. According to the Chinese classification system, Nianpanliang coal resources are classified as primarily long flame (CY_{41}) with minor amounts of non-caking (BN_{31}) coal. BOYD reviewed coal quality data provided and estimates of the average in situ or in-seam raw coal quality for the Nianpanliang Project area are as follows:

Raw Coal Quality

Seam	Moisture % (ad)	Ash % (dry)	VM % (daf)	Sulfur % (dry)	Phos % (dry)	CV (ad) (Kcal/kg)
2-1L	12.4	13.6	36.1	0.8	0.001	6,220
2-2	12.7	11.1	36.3	1.0	0.002	6,380
3-1U	12.9	10.4	36.1	1.0	0.001	6,440
4-1	12.7	9.2	37.1	1.1	0.001	6,640
5-1U	12.7	10.2	35.8	0.7	0.002	6,600
6-2	11.5	12.7	33.5	0.9	0.022	6,370

Partings greater than 5 cm are usually excluded from the coal core analyses and generally are not analyzed in standard Chinese coal quality testing procedures. ROM coal quality estimates, assuming the addition of 0.1 m of OSD mined with the coal seam, are as follows:

ROM Coal Quality

Seam	**Moisture** *% (ad)*	**Ash** *% (dry)*	**VM** *% (daf)*	**Sulfur** *% (dry)*	**P** *% (dry)*	**CV** *(ad) (Kcal/kg)*
			No. 1 Mine			
3-1U	11.8	12.3	35.1	0.94	0.002	6,330
4-1	11.2	10.4	36.7	1.08	0.002	6,540
6-2	10.9	16.1	32.6	1.36	0.034	6,200
			No. 2 Mine			
2-1L	14.0	16.4	34.0	0.92	0.002	5,930
2-2	14.2	13.6	35.4	0.97	0.004	6,210
3-1U	13.7	12.9	35.2	1.04	0.001	6,240
4-1	13.9	10.4	36.5	1.21	0.003	6,560
5-1U	13.8	15.3	33.5	0.52	0.002	6,210
6-2	12.4	14.9	32.4	0.56	0.012	6,240
			No. 3 Mine			
3-1U	12.4	12.9	34.9	1.19	0.001	6,290
4-1	10.0	9.6	36.0	0.84	0.002	6,580

Following this page are:

Figures

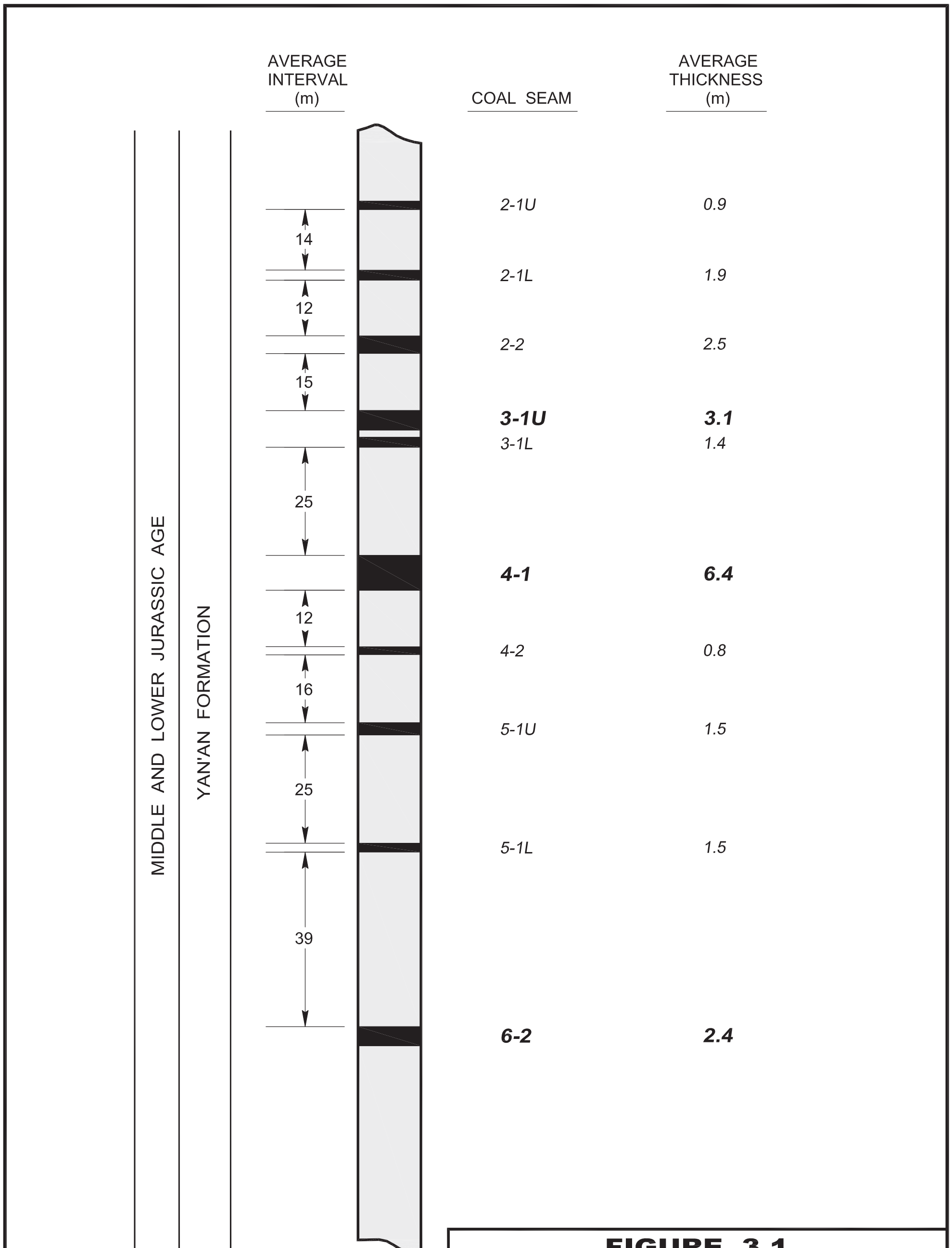


FIGURE 3.1

GENERALIZED STRATIGRAPHIC SECTION

NIANPANLIANG PROJECT AREA

Inner Mongolia Autonomous Region,
People's Republic of China

Prepared For

YUN SKY CHEMICAL (INTERNATIONAL) HOLDINGS LIMITED

John T. Boyd Company

October 2009
No Scale

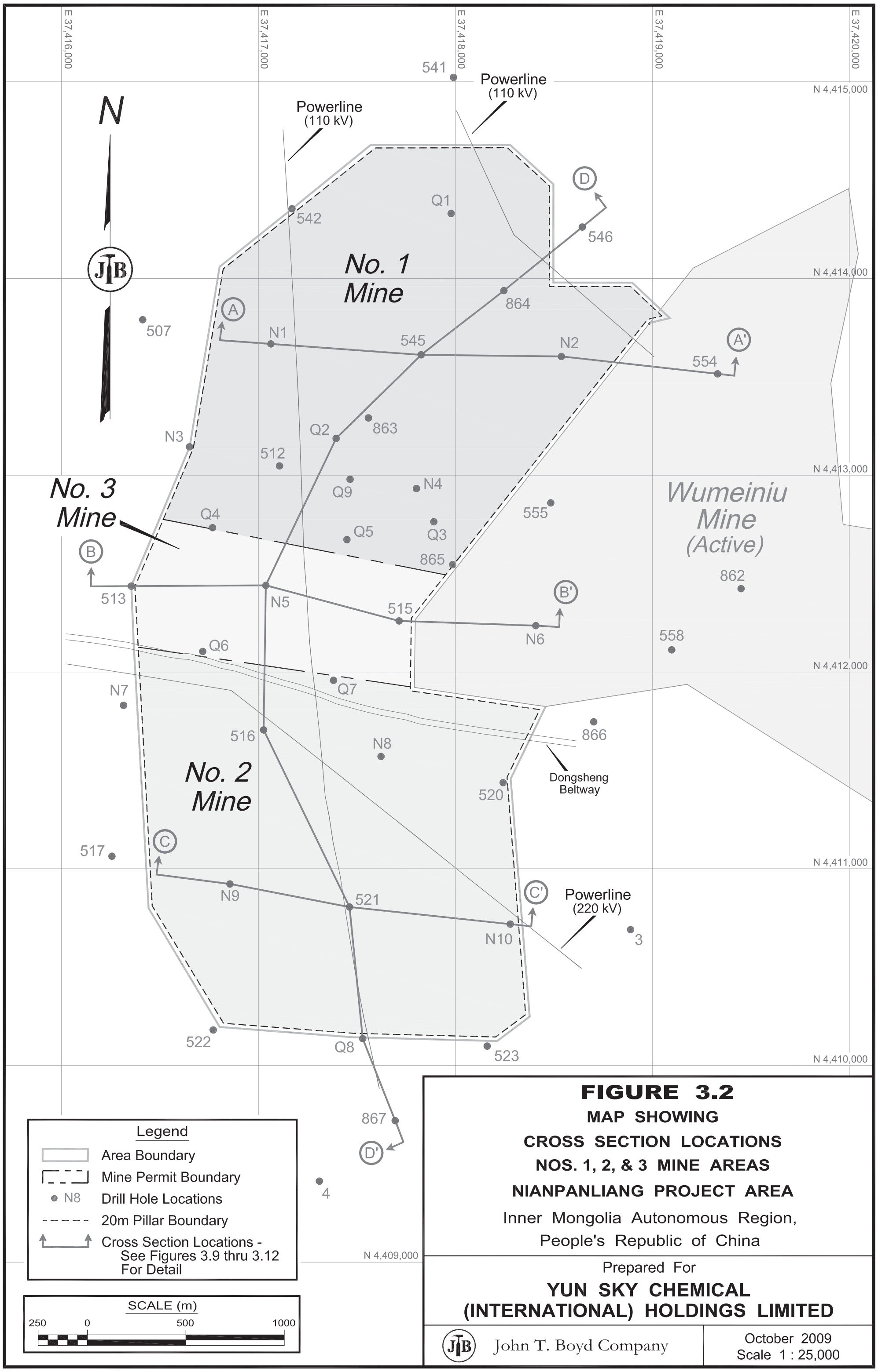
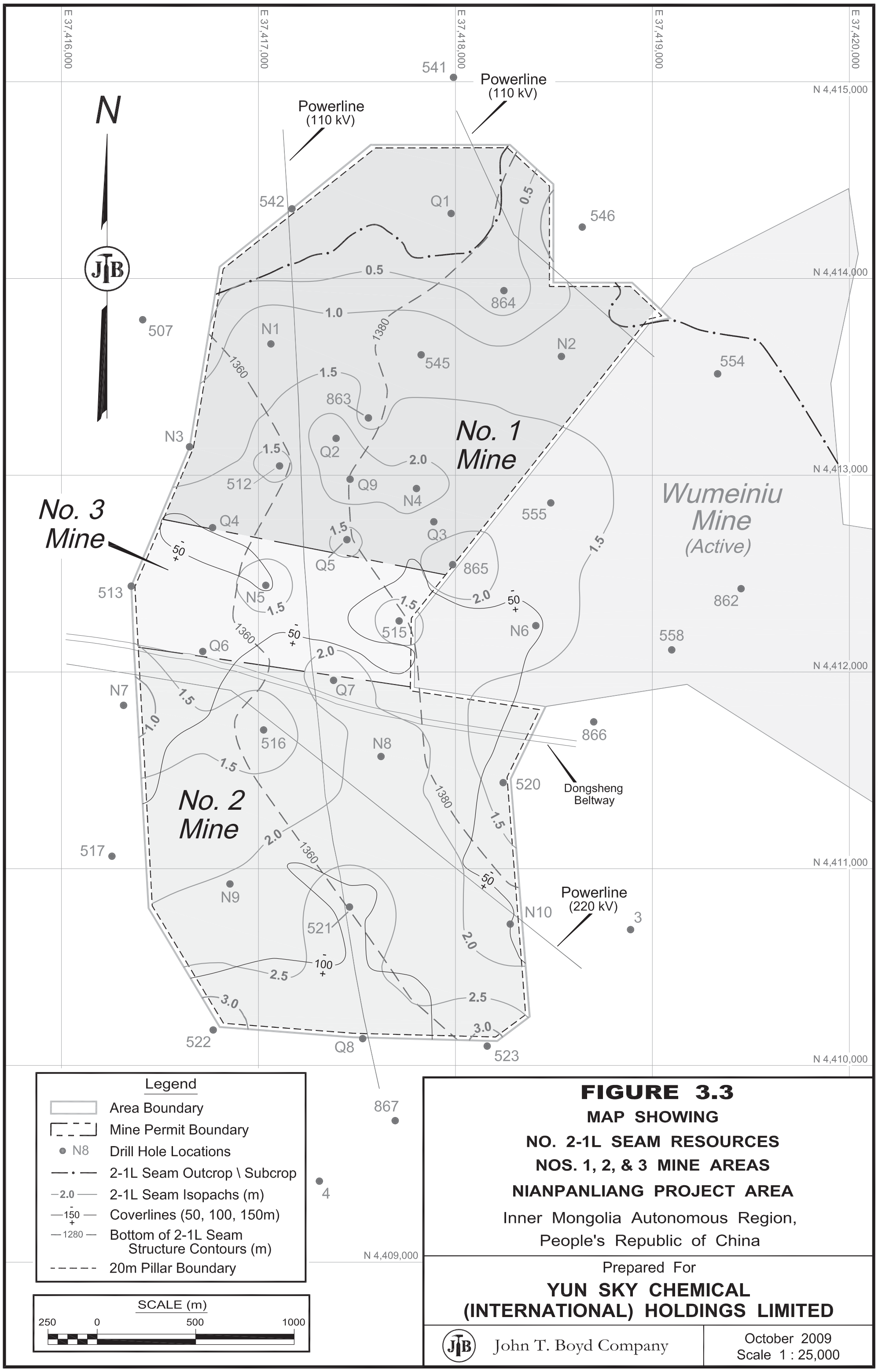


FIGURE 3.2
MAP SHOWING
CROSS SECTION LOCATIONS
NOS. 1, 2, & 3 MINE AREAS
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region, People's Republic of China


Powerline (110 kV)
Powerline (110 kV)
Powerline (220 kV)
No. 1 Mine
No. 2 Mine
No. 3 Mine
Wumeiniu Mine (Active)
Dongsheng Beltway
Legend
Area Boundary
Mine Permit Boundary
Drill Hole Locations
2-1L Seam Outcrop \ Subcrop
2-1L Seam Isopachs (m)
Coverlines (50, 100, 150m)
Bottom of 2-1L Seam Structure Contours (m)
20m Pillar Boundary
SCALE (m)
FIGURE 3.3
MAP SHOWING
NO. 2-1L SEAM RESOURCES
NOS. 1, 2, & 3 MINE AREAS
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region, People's Republic of China
Prepared For
YUN SKY CHEMICAL (INTERNATIONAL) HOLDINGS LIMITED
John T. Boyd Company
October 2009
Scale 1 : 25,000

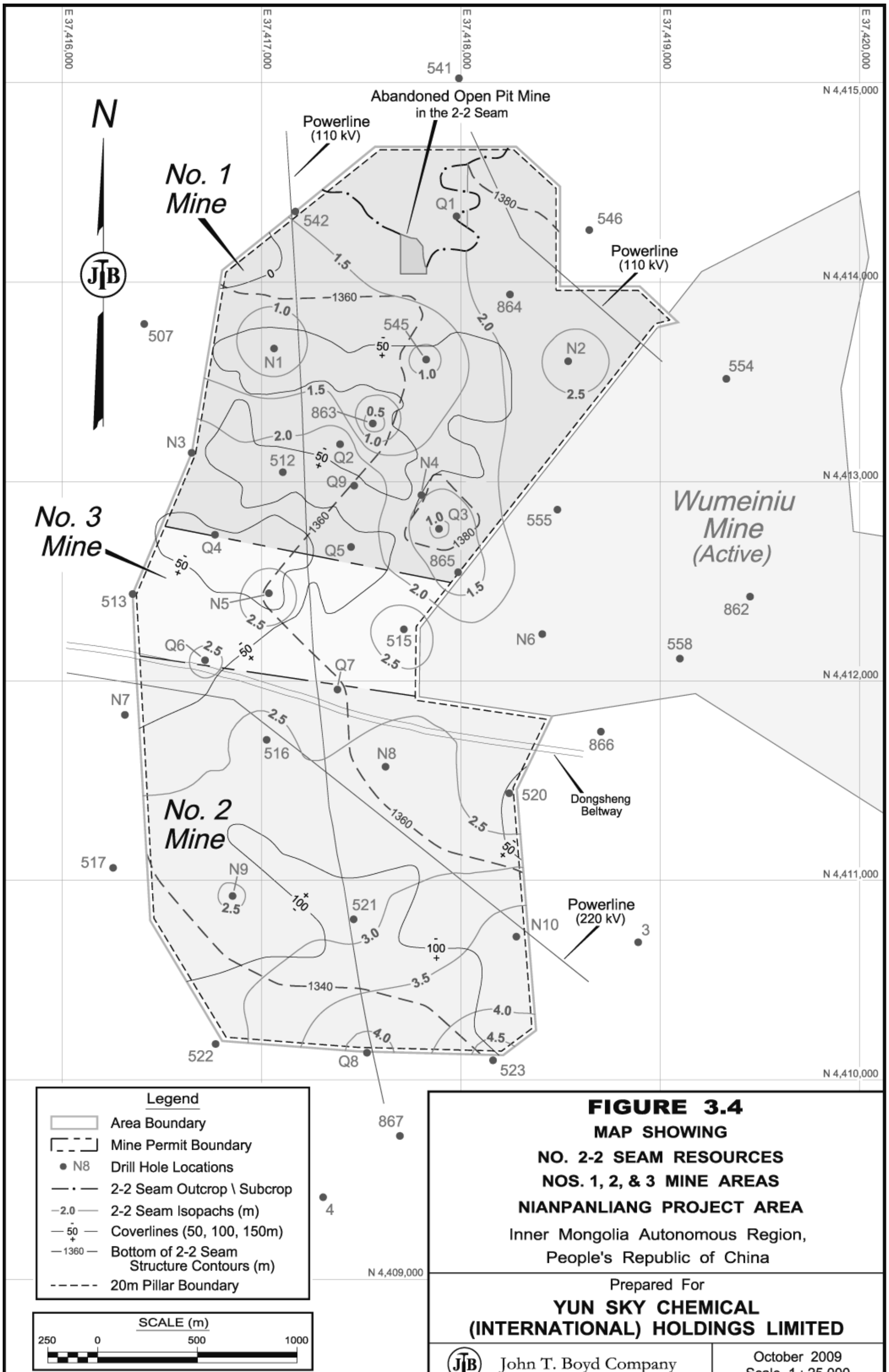
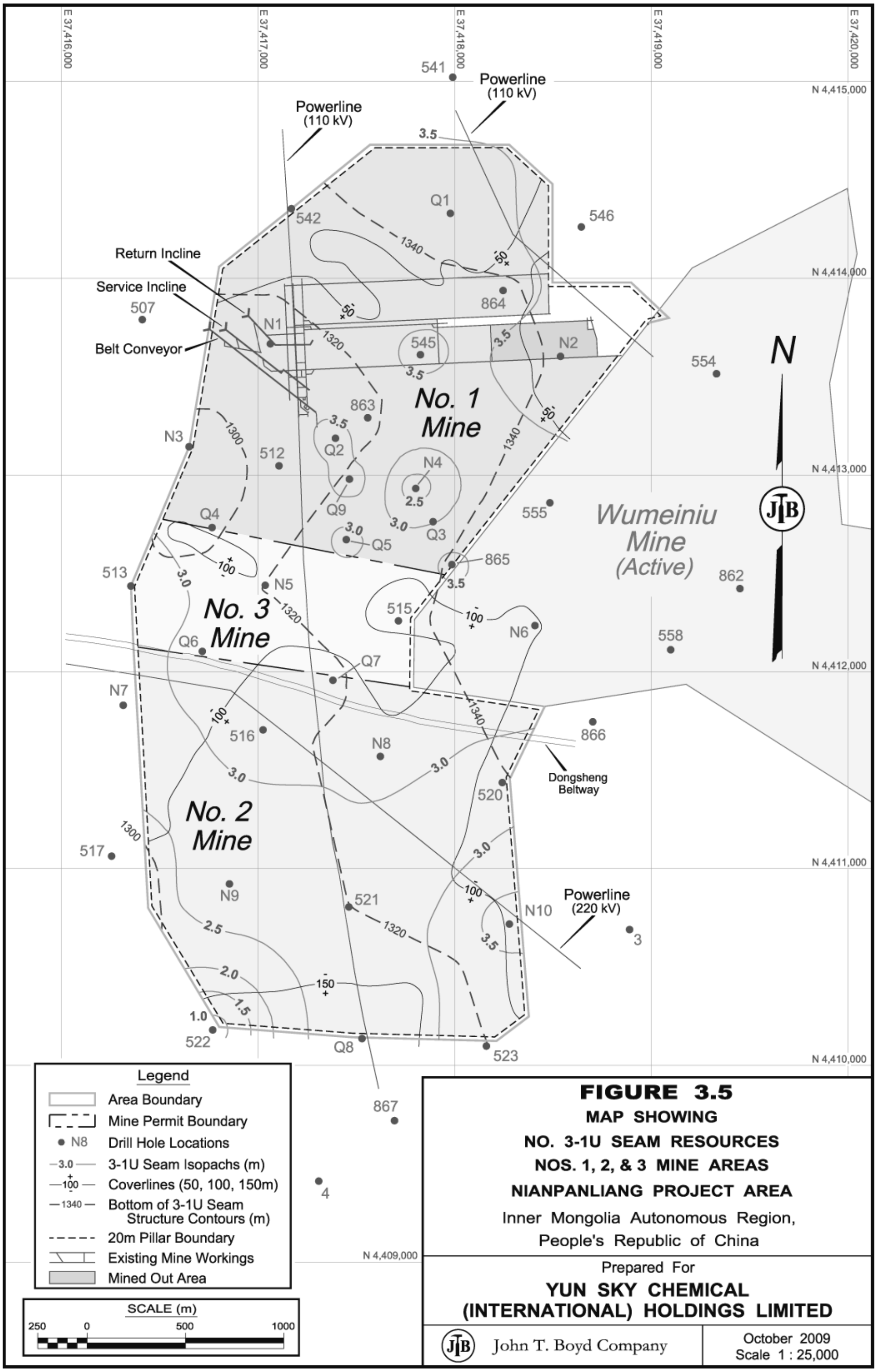


FIGURE 3.4
MAP SHOWING
NO. 2-2 SEAM RESOURCES
NOS. 1, 2, & 3 MINE AREAS
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China
Prepared For
YUN SKY CHEMICAL (INTERNATIONAL) HOLDINGS LIMITED


Powerline
(110 kV)
Return Incline
Service Incline
Belt Conveyor
No. 1
Mine
No. 3
Mine
No. 2
Mine
Wumeiniu
Mine
(Active)
Powerline
(220 kV)
Dongsheng
Beltway
N
Legend
Area Boundary
Mine Permit Boundary
Drill Hole Locations
3-1U Seam Isopachs (m)
Coverlines (50, 100, 150m)
Bottom of 3-1U Seam Structure Contours (m)
20m Pillar Boundary
Existing Mine Workings
Mined Out Area
SCALE (m)
250 0 500 1000
FIGURE 3.5
MAP SHOWING
NO. 3-1U SEAM RESOURCES
NOS. 1, 2, & 3 MINE AREAS
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China
Prepared For
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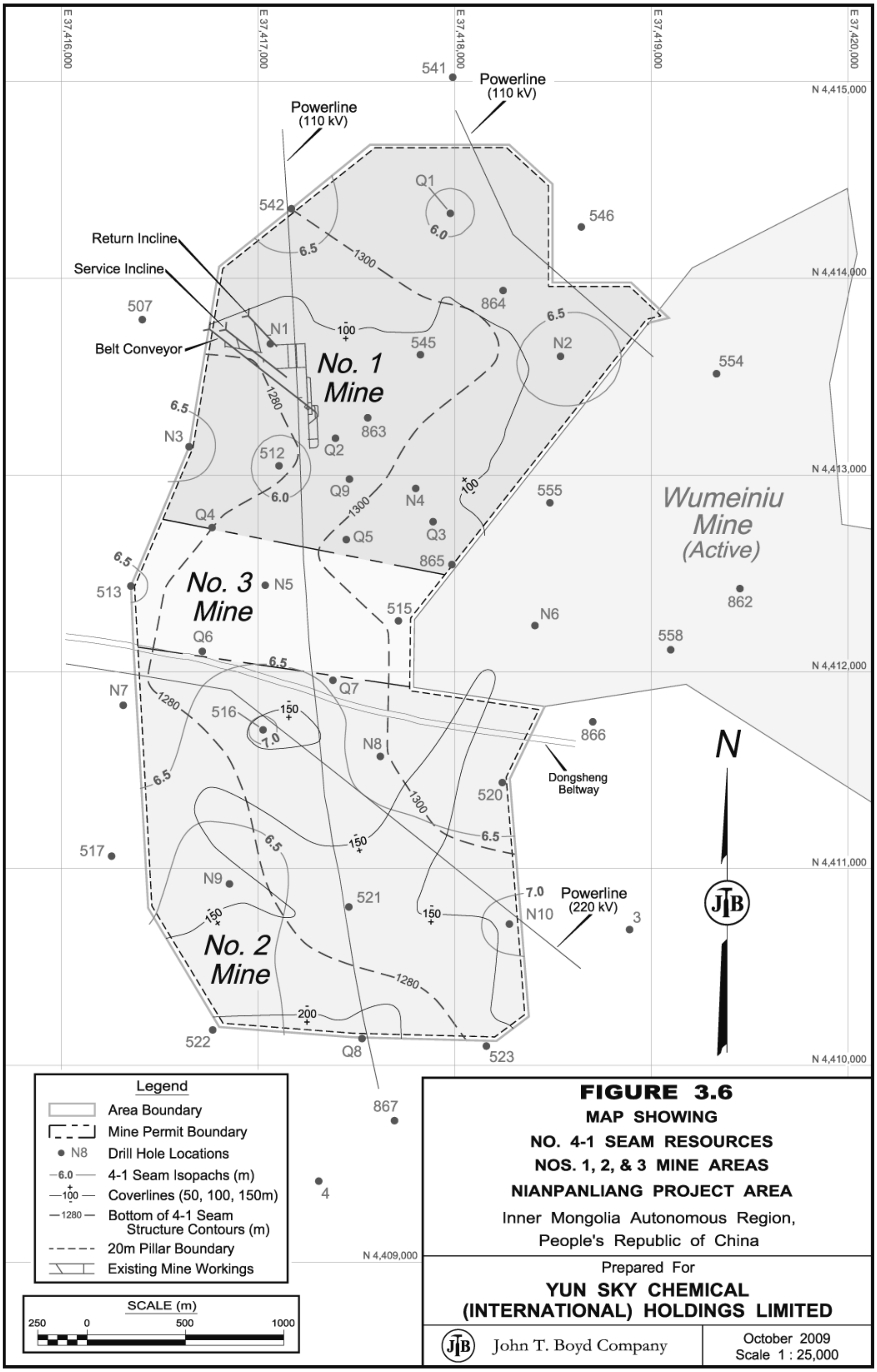
John T. Boyd Company
October 2009
Scale 1 : 25,000


E 37,416,000
E 37,417,000
E 37,418,000
E 37,419,000
E 37,420,000
N 4,415,000
N 4,414,000
N 4,413,000
N 4,412,000
N 4,411,000
N 4,410,000
N 4,409,000
Powerline (110 kV)
Powerline (110 kV)
Powerline (220 kV)
Return Incline
Service Incline
Belt Conveyor
No. 1 Mine
No. 2 Mine
No. 3 Mine
Wumeiniu Mine (Active)
Dongsheng Beltway
N
Legend
Area Boundary
Mine Permit Boundary
Drill Hole Locations
4-1 Seam Isopachs (m)
Coverlines (50, 100, 150m)
Bottom of 4-1 Seam Structure Contours (m)
20m Pillar Boundary
Existing Mine Workings
SCALE (m)
250 0 500 1000
FIGURE 3.6
MAP SHOWING
NO. 4-1 SEAM RESOURCES
NOS. 1, 2, & 3 MINE AREAS
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China
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October 2009
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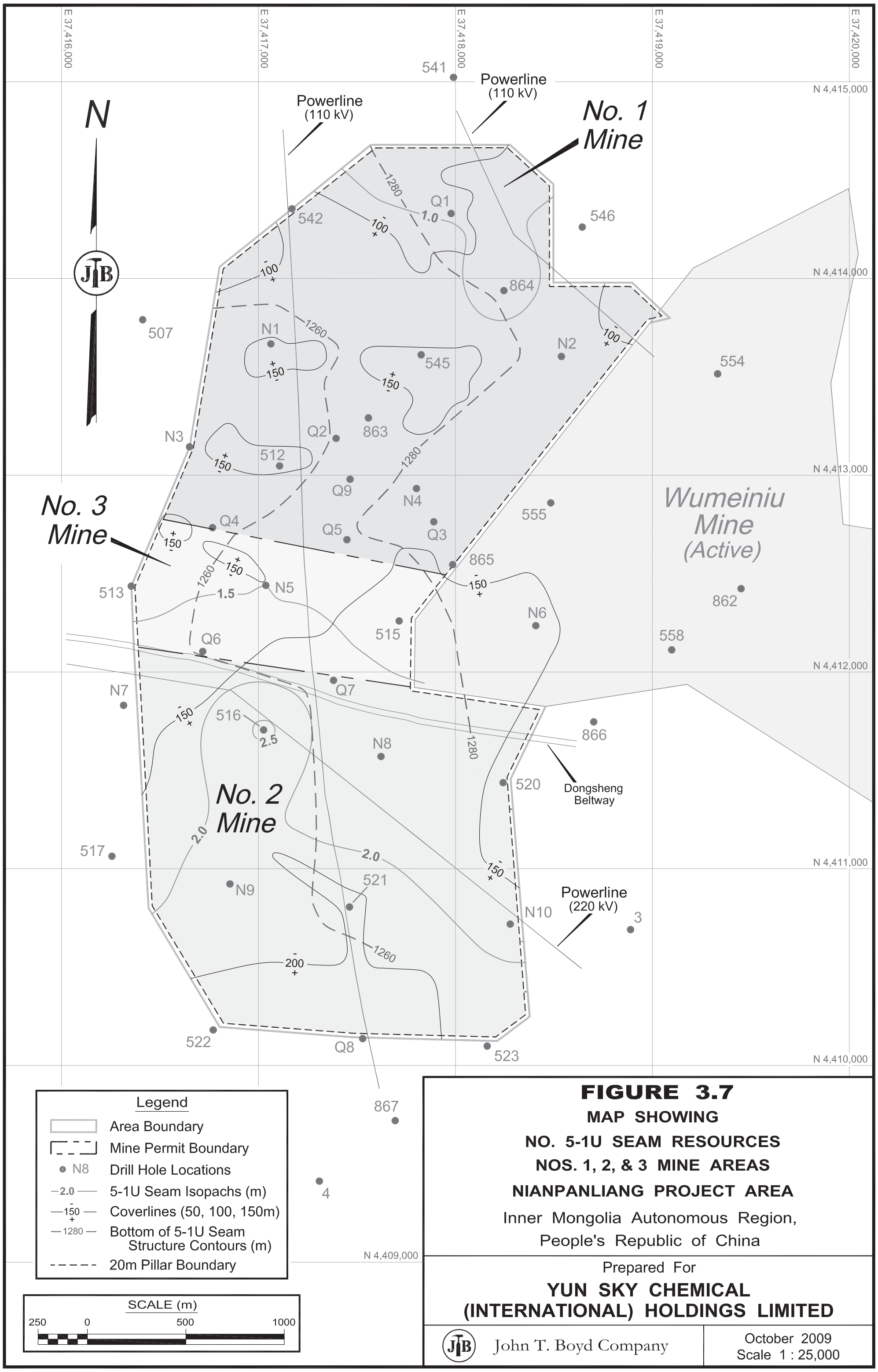
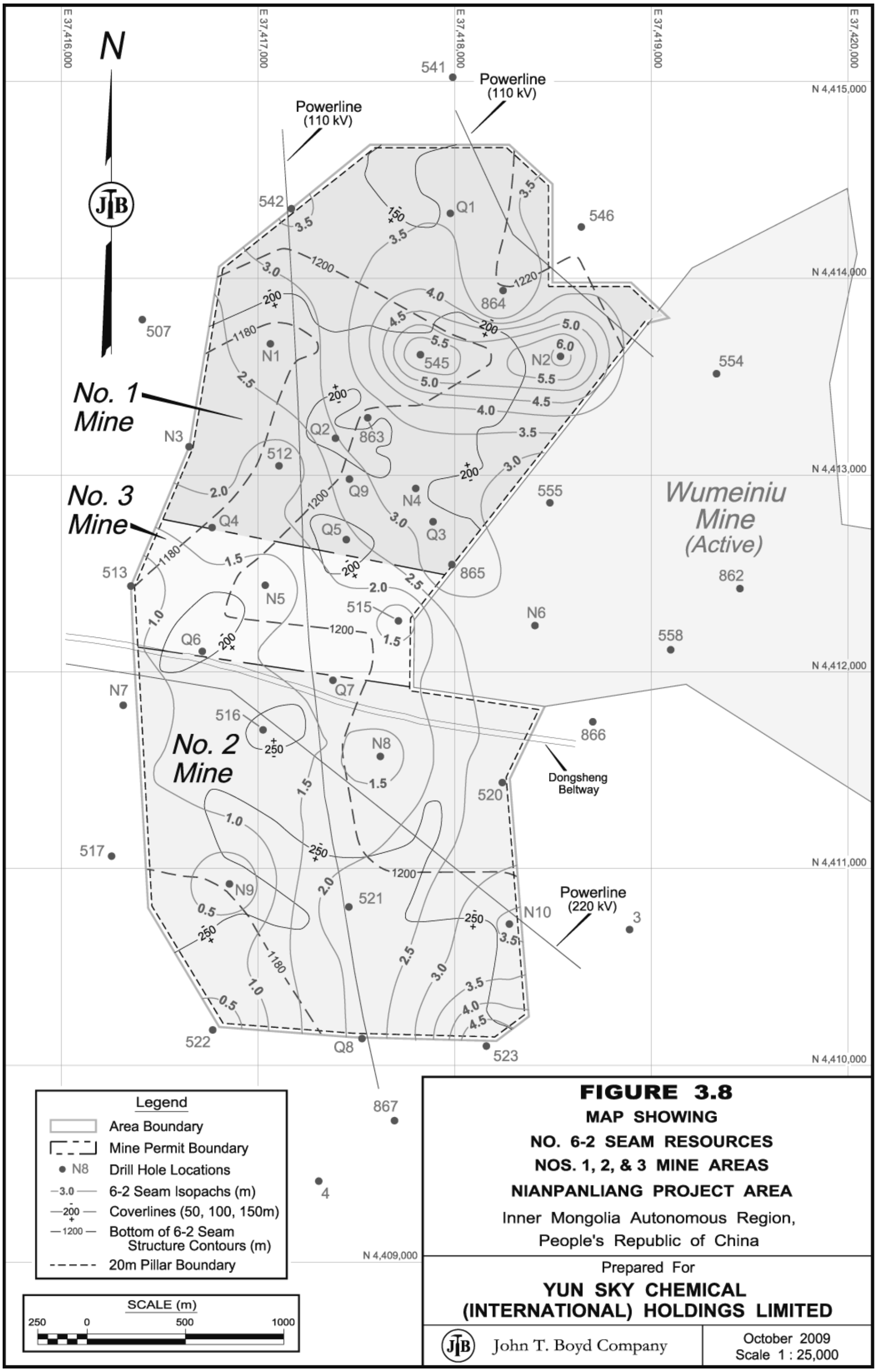


N
No. 1 Mine
No. 2 Mine
No. 3 Mine
Wumeiniu Mine (Active)
Powerline (110 kV)
Powerline (110 kV)
Powerline (220 kV)
Dongsheng Beltway
E 37,416,000
E 37,417,000
E 37,418,000
E 37,419,000
E 37,420,000
N 4,415,000
N 4,414,000
N 4,413,000
N 4,412,000
N 4,411,000
N 4,410,000
N 4,409,000
Legend
Area Boundary
Mine Permit Boundary
Drill Hole Locations
5-1U Seam Isopachs (m)
Coverlines (50, 100, 150m)
Bottom of 5-1U Seam Structure Contours (m)
20m Pillar Boundary
SCALE (m)
250 0 500 1000
FIGURE 3.7
MAP SHOWING
NO. 5-1U SEAM RESOURCES
NOS. 1, 2, & 3 MINE AREAS
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China
Prepared For
YUN SKY CHEMICAL
(INTERNATIONAL) HOLDINGS LIMITED
John T. Boyd Company
October 2009
Scale 1 : 25,000


N
No. 1 Mine
No. 3 Mine
No. 2 Mine
Wumeiniu Mine (Active)
Powerline (110 kV)
Powerline (220 kV)
Dongsheng Beltway
Legend
Area Boundary
Mine Permit Boundary
Drill Hole Locations
6-2 Seam Isopachs (m)
Coverlines (50, 100, 150m)
Bottom of 6-2 Seam Structure Contours (m)
20m Pillar Boundary
SCALE (m)
FIGURE 3.8
MAP SHOWING
NO. 6-2 SEAM RESOURCES
NOS. 1, 2, & 3 MINE AREAS
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China
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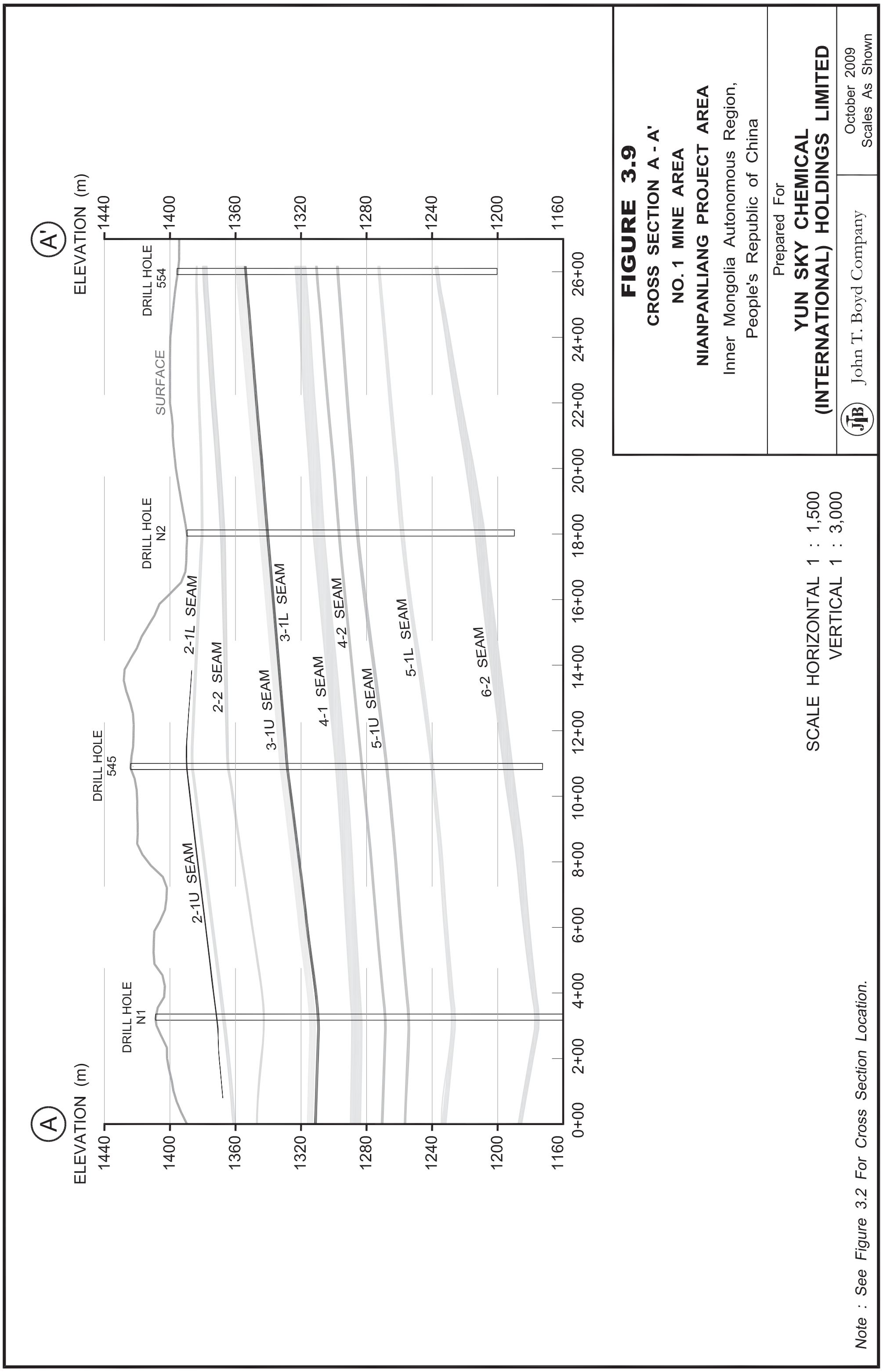
October 2009
Scale 1 : 25,000



A
A'
ELEVATION (m)
1440
1400
1360
1320
1280
1240
1200
1160
0+00
2+00
4+00
6+00
8+00
10+00
12+00
14+00
16+00
18+00
20+00
22+00
24+00
26+00
DRILL HOLE N1
DRILL HOLE 545
DRILL HOLE N2
DRILL HOLE 554
SURFACE
2-1U SEAM
2-1L SEAM
2-2 SEAM
3-1U SEAM
3-1L SEAM
4-1 SEAM
4-2 SEAM
5-1U SEAM
5-1L SEAM
6-2 SEAM
SCALE HORIZONTAL 1 : 1,500
VERTICAL 1 : 3,000
Note : See Figure 3.2 For Cross Section Location.
FIGURE 3.9
CROSS SECTION A - A'
NO. 1 MINE AREA
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China
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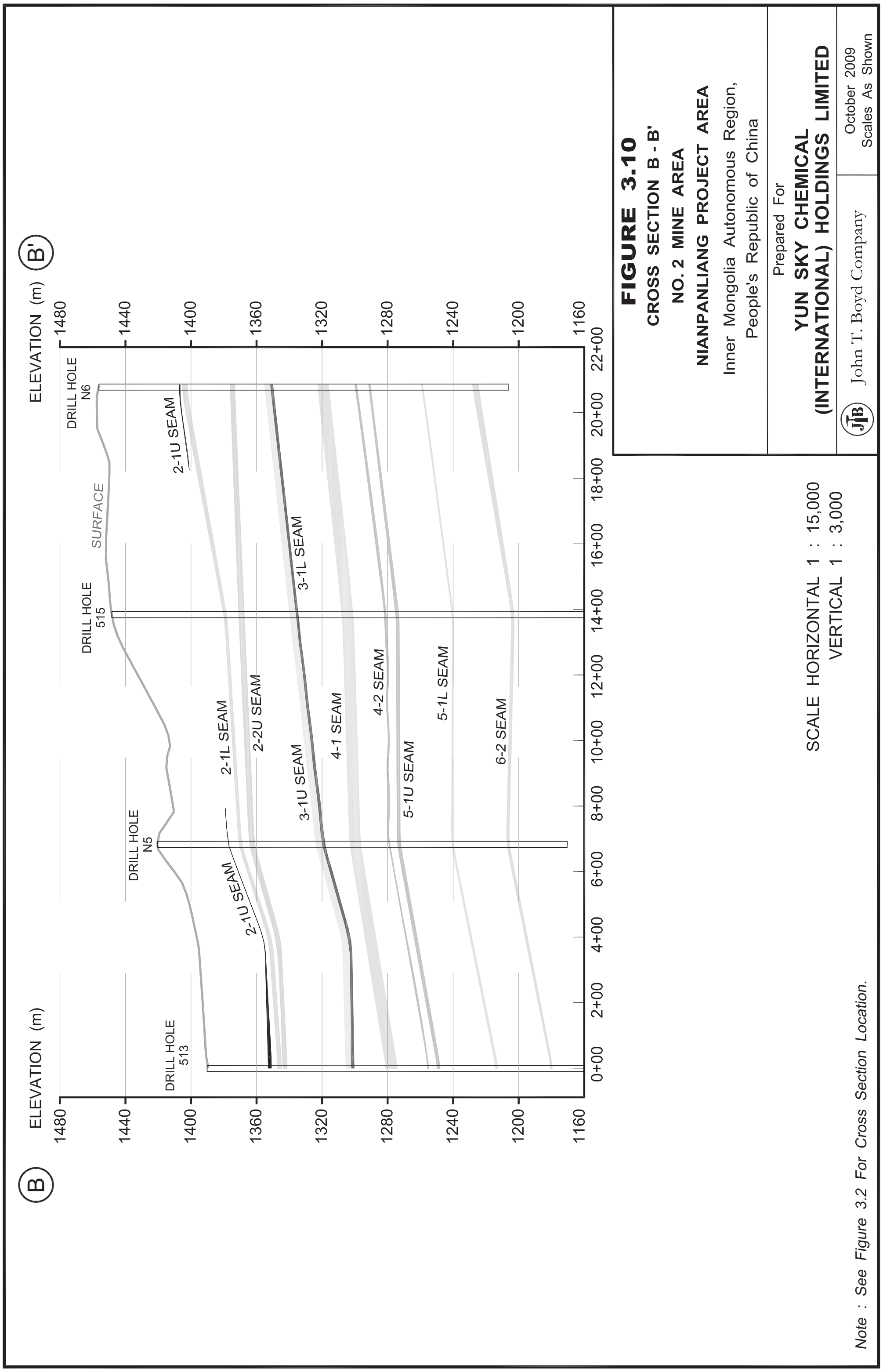
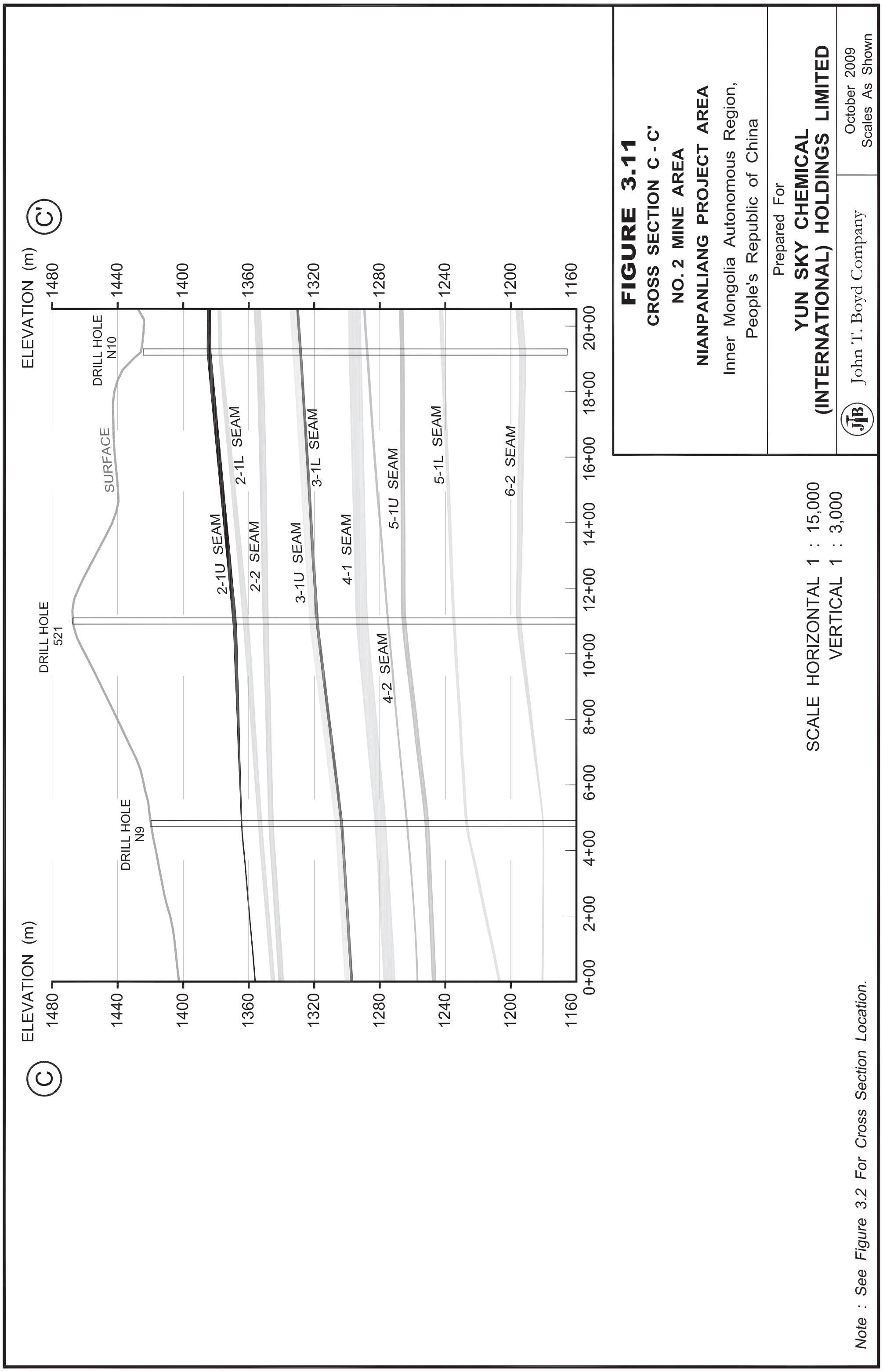
John T. Boyd Company
October 2009
Scales As Shown


B
B'
ELEVATION (m)
ELEVATION (m)
1480
1440
1400
1360
1320
1280
1240
1200
1160
0+00
2+00
4+00
6+00
8+00
10+00
12+00
14+00
16+00
18+00
20+00
22+00
DRILL HOLE 513
DRILL HOLE N5
DRILL HOLE 515
DRILL HOLE N6
SURFACE
2-1U SEAM
2-1L SEAM
2-2U SEAM
3-1U SEAM
3-1L SEAM
4-1 SEAM
4-2 SEAM
5-1U SEAM
5-1L SEAM
6-2 SEAM
SCALE HORIZONTAL 1 : 15,000
VERTICAL 1 : 3,000
Note : See Figure 3.2 For Cross Section Location.
FIGURE 3.10
CROSS SECTION B - B'
NO. 2 MINE AREA
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China
Prepared For
YUN SKY CHEMICAL
(INTERNATIONAL) HOLDINGS LIMITED
JTB John T. Boyd Company
October 2009
Scales As Shown


C
C'
ELEVATION (m)
ELEVATION (m)
1480
1440
1400
1360
1320
1280
1240
1200
1160
0+00
2+00
4+00
6+00
8+00
10+00
12+00
14+00
16+00
18+00
20+00
DRILL HOLE N9
DRILL HOLE 521
DRILL HOLE N10
SURFACE
2-1U SEAM
2-1L SEAM
2-2 SEAM
3-1U SEAM
3-1L SEAM
4-1 SEAM
4-2 SEAM
5-1U SEAM
5-1L SEAM
6-2 SEAM
SCALE HORIZONTAL 1 : 15,000
VERTICAL 1 : 3,000
Note : See Figure 3.2 For Cross Section Location.
FIGURE 3.11
CROSS SECTION C - C'
NO. 2 MINE AREA
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China
Prepared For
YUN SKY CHEMICAL
(INTERNATIONAL) HOLDINGS LIMITED
John T. Boyd Company
October 2009
Scales As Shown

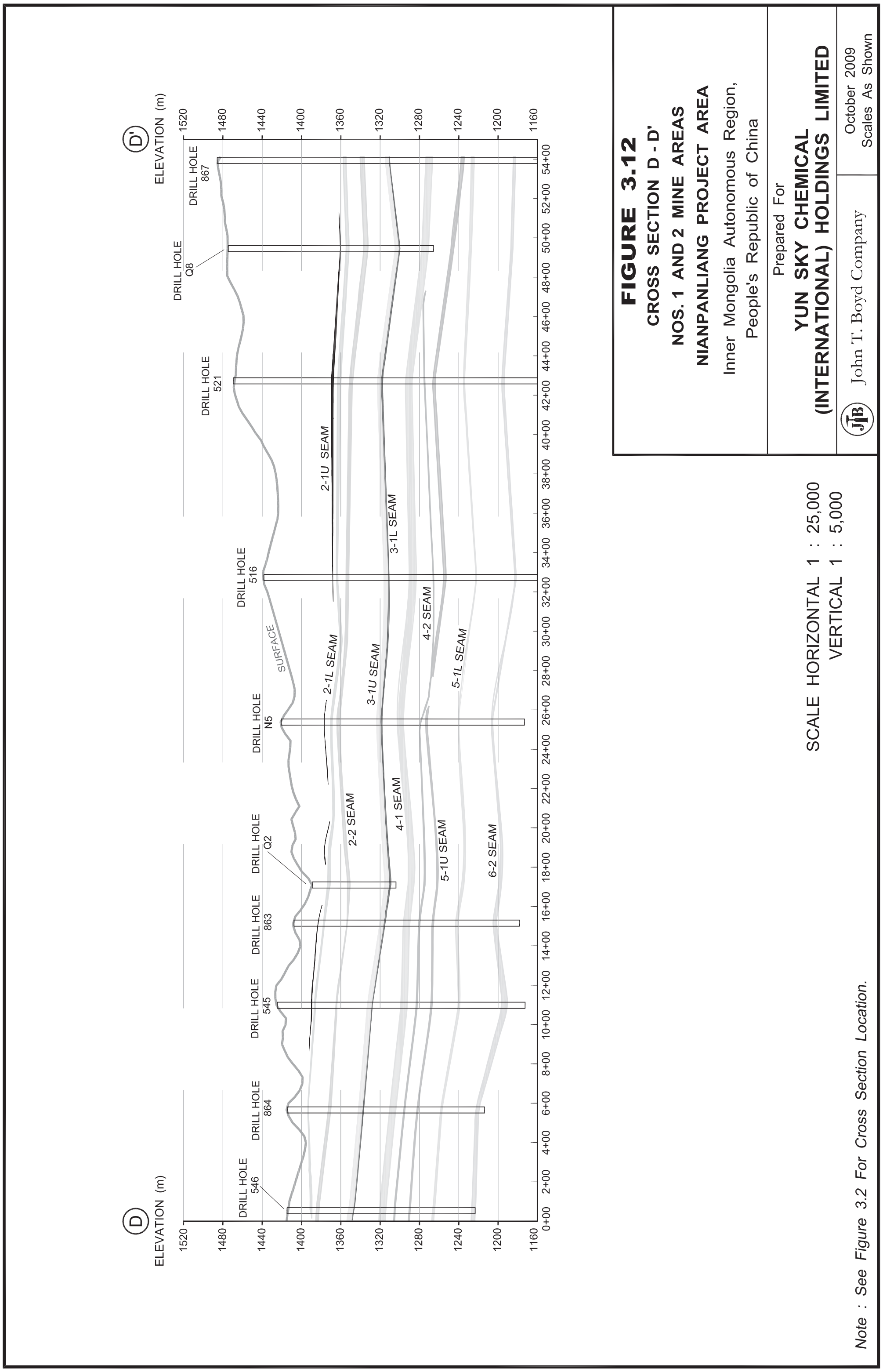


FIGURE 3.12
CROSS SECTION D - D'
NOS. 1 AND 2 MINE AREAS
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China
Prepared For
YUN SKY CHEMICAL
(INTERNATIONAL) HOLDINGS LIMITED
John T. Boyd Company
October 2009
Scales As Shown
SCALE HORIZONTAL 1 : 25,000
VERTICAL 1 : 5,000
Note : See Figure 3.2 For Cross Section Location.
D
D'
ELEVATION (m)
DRILL HOLE 546
DRILL HOLE 864
DRILL HOLE 545
DRILL HOLE 863
DRILL HOLE Q2
DRILL HOLE N5
DRILL HOLE 516
DRILL HOLE 521
DRILL HOLE Q8
DRILL HOLE 867
SURFACE
2-1U SEAM
2-1L SEAM
2-2 SEAM
3-1U SEAM
3-1L SEAM
4-1 SEAM
4-2 SEAM
5-1U SEAM
5-1L SEAM
6-2 SEAM
1520
1480
1440
1400
1360
1320
1280
1240
1200
1160
0+00 2+00 4+00 6+00 8+00 10+00 12+00 14+00 16+00 18+00 20+00 22+00 24+00 26+00 28+00 30+00 32+00 34+00 36+00 38+00 40+00 42+00 44+00 46+00 48+00 50+00 52+00 54+00

4.0 MINE OPERATION

4.1 Introduction

Construction began at the original Nianpanliang Mine in August 1991 and was subsequently halted in 1995 due to lack of investment funding. Construction resumed in 2006 as a response to increasing fuel needs at a number of new and expanding coal-fired power generating stations throughout the region. Mine planning methodology for the proposed Nianpanliang Mine Project can be summarized as the development of two coal mines, connected underground by roadways and infrastructure supporting the simultaneous operation of multiple LW faces and equipment systems operating in several coal seams.

A third area, designated as No. 3 Mine, lies between the No. 1 and No. 2 mining right areas and has delayed construction progress of the No. 2 Mine. Mining rights for the No. 3 Mine are not presently controlled and will need to be acquired in order to implement the overall Nianpanliang mine project as proposed. This area will be developed in conjunction with the construction plans for the No. 2 Mine. An estimated RMB60 million payment to the MLR will be needed, following approval, to purchase the mining rights. We believe it is reasonable to project that Hengtai will be successful in its application for the No. 3 Mine Area mining right certificate, which would authorize its planned mining operation, although this view should not be considered as a guarantee of the application's approval.

There are three primary recoverable coal horizons within the overall Nianpanliang mining boundary: Nos. 3-1U, 4-1, and 6-2. LW mining will focus on recovery of seams greater than 1.5 m in thickness and with heating values greater than 4,500 Kcal/kg. Secondary seams such as the Nos. 2-1L and 2-2 were not considered economically viable and bypassed by mine management during No.1 Mine construction. However, No. 1 mining plans still consider extraction of the relatively thin No. 5-1U and No. 5-1L seams, using Con-Mech mining systems. Due to the erratic occurrence of the seam and the seam splitting characteristics, we excluded these seams from the reserve base.

The proposed No. 2 Mine is situated to the south of the operating No. 1 Mine. As constructed, the No. 1 Mine has three incline openings for access, conveyance and ventilation located at the mine's surface facilities area. Current plans are to extend the existing (3) main roadways from the No. 1 Mine south to provide access to the No. 2 reserves. Two main roadways will then be developed to the southern mining right boundary, where two incline openings will be developed for return ventilation and belt conveyor access to the coal stockpile yard at the nearby Guodian power plant (2 x 600 MW station). Following completion of the inclines, the No.2 Mine's belt conveyor system would be reversed and the mine would operate independently of the No. 1 Mine. Production from the No. 1 Mine output would continue to be conveyed to the already constructed facilities.

Hengtai could alternately access the No. 2 Mine reserves with openings independent of the No. 1 Mine openings.

Hengtai expects potential synergies from the operation of two mines. The majority of workers from both mines would share existing facilities (to be expanded) at the No. 1 Mine complex, thereby eliminating the need for extensive construction of separate facilities for the No. 2 Mine. This also ensures better mine-to-mine communication, as the operations would share a logistical base for supplies, parts, materials, equipment.

LW operations at the No.1 Mine commenced on a test period basis on 26 December 2009 in the No. 3-1U coal seam. Standard practice within the PRC requires the mine to undergo this testing period following start-up. The test period typically extends between two and six months, during which time mine systems are evaluated and debugged. Regulatory officials also inspect the mine and its infrastructure. Mines in test start-up mode typically do not attain their rated or authorized output capacity during this period. Accordingly, the No. 1 Mine has produced 0.37 Mt through 30 June 2009 from 800 m of face strike distance mining.

As authorized by the Coal Industry Bureau of Inner Mongolia Autonomous Region, the mine is permitted to operate at the 1.2 Mtpa production level presently. However, regional authorities agreed on 19 December 2007, subject to test period approval, the No. 1 Mine would be issued a new mining certificate authorizing 2.4 Mtpa output capacity. The mine completed its test period in November 2009.

BOYD visited the No. 1 Mine on 8 November 2007, 20 August 2008 and following development and commencement of the first LW face (No. 1131) on 13 July 2009. The No. 2 Mine site remains in greenfield status at this time.

Several active mines, located either adjacent, or in close proximity, to the Nos. 1 and 2 mines are shown below:

Mine Name	**Mining Method**	**Production** *(Mtpa)*	**Coal Seams Nos.**
Yongli	Con-Mech	0.6	4-1
Wumeiniu	Con-Mech	0.6	4, 3-1U
Fanjiacun	FM LW	1.2	2-2, 4-1

Nianpanliang and its neighboring mines are located near highways and a railroad. The mine is 3 km north of Public Road No. 109 and Road S213. Public Road No. 210 is 4 km west of the mine. Within the mining area, the Nianzhu Coal Transportation road has a 4.5-km distance to State Road No. 213. The Dongsheng Beltway (highway) runs through the project area. Coal from Nianpanliang can reach Ordos City as well as Shengmu and Fugu County in the Shaanxi Province. The proximity of established roads provides both of the Nianpanliang mines with convenient truck transportation options. The Chaonaogou Coal Loading Railway Station is located 15 km from the mine.

4.2 Background and Geologic Setting

The Nianpanliang mines are located in Inner Mongolia within the Dongsheng Coalfield. The coalfield is situated on the northeastern portion of the Ordos Plateau. The terrain within the study is undulating, maximum relief is approximately 90 m, and average relief is between 30 and 40 m. Gulches and valleys are the predominant landform throughout the area.

The major surface water features are the Naling Valley in the east and the Hashila River in the western portion of the concession area. Surface waters drain into Naling Valley during the entire year but in significantly lower quantities in the dry season, while flash flooding can occur in the rainy season. The Hashila River drains into the Huanghe River.

The Nianpanliang Project area coal seams are classified as non-caking and long flame coal under the Chinese classification system. These coals have spontaneous combustion risk, and the flame analysis of samples indicates that there is a risk of explosion from the dust generated during mining. The seams in the mining area liberate a minor quantity of methane. The underground temperature appears to be normal. Exploration revealed abnormally high radiation levels within the Jurassic-age strata. Mine management indicates there has been no further analysis to identify the source and potential effects of the radiation. BOYD recommends further action in this regard as mine construction efforts advance. Due to the mine's proximity to the Hashila River, the PDR estimates that the No. 1 Mine will generate slightly more water than the neighboring Fanjiacun Mine presently under construction.

The roof of the seams in the Nianpanliang Project mining area is predominantly mudstone, with the occasional presence of fine sandstone. The No. 2 Mine FSR describes the mudstone roof as weak, and potential roof control problems could be experienced. Nearby mines have occasionally experienced localized roof control difficulties. The strata in this area are relatively simple, generally flat, and absent of faulting, folding, and intrusions. The deepest mineable seam in the mining area has approximately 200 m of cover.

The area is generally free of habitation (villages, etc.). The No. 1 Mine does not anticipate any village moves; minor village moves are expected to support the No.2 Mine design. The Dongsheng Beltway (highway) and three major power lines traversing the surface overlying the project area pose restrictions on mining activities, specifically subsidence from LW mining.

4.3 Construction Status

Construction of new mine infrastructure and surface installations at No. 1 Mine began in October 2006, although the surface construction projects were idled in November 2006, due to winter weather. Surface construction resumed in April 2007 and was completed in the fourth quarter of 2008. Following mine roadway development, which began in early 2008, the initial LW production began in late December 2008. The first FM LW face, equipped with Chinese domestic equipment is located in the No. 3-1U Seam (No. 1131) and was put into operation 26 December 2008 on a test basis. The ming completed its test period in November 2009. Development for the second FM LW face (1133) in the No. 3-1U Seam has reached the proposed LW setup room. LW strike lengths were shortened to avoid potential subsidence of a surface power line.

The second set of upgraded FM LW equipment had not arrived at the mine site in July 2008 but was on order and anticipated to arrive in October 2009. Initial production from the second FM LW face (1133) is expected in the fourth quarter of 2009. The original FM LW equipment will be transferred to the No. 2 Mine following construction work. The mine's current infrastructure does not support simultaneous operation of two high capacity FM LW systems. Major belt conveyor projects and infrastructure upgrades will be needed to expand production capacities at the No. 1 Mine, as the mine was designed and constructed to handle only 1.2 Mtpa. Hengtai is currently preparing for the expected production expansion. If mining conditions remain favorable, management has indicated they will seek to further expand production capacity, specifically while mining the thick No. 4-1 coal seam. Regulatory approval of production expansion will be needed before infrastructure upgrades and belt projects will begin. BOYD believes the construction and production build-up schedule as projected is optimistic.

Development for the first FM LW face in the thick No. 4-1 Seam is under way, currently crews are developing the bottom station (transformer station, bunker/bin, sump, pump station, etc.). The timetable for mining the No. 4-1 Seam had not been determined at the time of our site visit. Mine management is considering high profile, full seam extraction FM LW equipment in place of sublevel caving LW equipment for extracting the No. 4-1 Seam.

The quality of the underground construction was satisfactory at the time of our site visits. Contract workers are utilized on two of the four roadheader development crews. Zhengzhou Coal and Power Company (ZCPC), contract services provider, owns and operates two of the roadheader development sections. Construction activity has been monitored by the Zhongtai Monitor Company, a subsidiary of the Taiyuan Coal Design Institute. Selection of the No. 2 construction team was under way.

4.4 Mine Services

4.4.1 Mine Openings

The access openings for the No. 1 Mine consist of three inclines leading to the main underground roadway in the No. 4-1 Seam. Each incline has a separate function: coal conveyance, personnel access, and return air ventilation. During the site visits, mine site management indicated that personnel access to the No. 2 Mine will be through the service entrance of the No. 1 Mine (this remains subject to finalized construction plans for the No. 2 Mine). As proposed, the No.2 Mine will have two incline openings at its southern boundary for belt conveyor access and return air ventilation. The inclines are constructed/excavated utilizing drill and blast techniques.

Access incline opening designs for the Nianpanliang mines are summarized below:

	Incline 1	Incline 2	Incline 3
Nianpanliang No. 1 (Finished)			
Angle *(degrees)*	16	6	25
Elevation *(m)*			
Mining Level 1	1,241	1,277	1,286
Mining Level 2	–	1,186	1,173
Length *(m)*			
Mining Level 1	516	871	213
Mining Level 2	–	1,742	481
Width *(m)*	3.5	4.2	3.5
Function	Coal hoisting by conveyor belt	Access and air intake	Air return
Nianpanliang No. 2 (Planned)			
Angle *(degrees)*	16	25	
Elevation *(m)*			
Mining Level 1	1,295	1,295	
Length *(m)*			
Mining Level 1	570	347	
Width *(m)*	4.3	3.5	
Function	Coal hoisting by conveyor belt	Air return	

For the No. 1 Mine, the incline openings are located near the mine's surface facilities. The inclines are constructed with semi-arch openings and lined with 120 mm thick shotcrete supplemented with rock bolt anchoring in the bedrock section of the incline. The initial section of the inclines passes through loose soil materials (loess) and is supported by steel-reinforced concrete linings that are 350 mm thick in the main and ventilation inclines and 400 mm thick in the service incline. Similar incline opening designs for the No. 2 Mine are anticipated.

4.4.2 Underground Coal Haulage

Belt conveyor systems are planned in both mines to transport raw coal from the faces to surge coal bins in each operating seam level near the main incline conveyors. Coal from the bins is conveyed in the main inclines to the surface coal handling facilities.

For the No. 1 Mine, the belt conveyors in the No. 3-1U Seam are 1 m wide, operating at 2.0 m/s, with a capacity of 700 tph. The main incline belt conveyor is designed for a 1.2-Mtpa capacity, although with the anticipated significantly higher output levels, the conveyor design will have to be modified. The largest surge coal bin (proposed) is located in the No. 4-1 Seam, with a capacity of 610 tonnes. The surge bin in the No. 3-1U Seam has a capacity of 430 tonnes.

A summary of belt conveyor design data for the No. 1 Mine is as follows:

Belt Conveyor	**Maximum Capacity**	**Width**	**Speed**	**Power**
	(tonnes/hr)	*(mm)*	*(m/s)*	*(kW)*
Main Incline	600	1,000	3.2	2 x 220
3-1U Gate	450	1,000	2.0	2 x 90
3-1U Main Roadway	450	1,000	2.0	2 x 90

The No. 2 Mine belt conveyor systems are expected to have similar capacities. Significant changes to the conveyor system design will be completed in conjunction with production expansion efforts. Exact design specifications for belt design following capacity expansion were not provided.

Planned modifications to upgrade the No. 1 Mine belt conveyor system include replacing the 1.0 m width gate belts with 1.2 m width belts, increasing the main roadway conveyor width to 1.2 m, and increasing the main incline belt conveyor width to 1.4 m.

4.4.3 Underground Material and Personnel Transport

In both mines, transport of equipment, materials, and personnel is planned using rubber-tired, diesel-powered vehicles. Light equipment and supplies are hauled by flatbed cars with 3,000-kg capacity. Workers are transported underground with 20-person capacity personnel carriers. Heavy equipment pieces are moved with 25-tonne capacity support vehicles. Rubber-tired equipment has the potential to be more efficient and flexible than the more common narrow gauge rail systems used in many Chinese mines.

4.4.4 Coalbed Methane and Ventilation

Projected methane emissions for the Nianpanliang mines are classified as low according to exploration drilling results. The general region where the mines are situated is understood to have mines with relatively low methane generation. This is due in part to the shallow operating depths of the regional mines. Methane generation is likely to increase with mining depth, and close monitoring of gas emissions is recommended to prevent possible methane buildups in active mine areas. It is not anticipated that methane generation will place a significant constraint on mine development and LW face operations. During our most recent site visit, methane was observed to be 0.06% in the tailgate and 0.01% in the headgate.

In the No. 1 Mine, the planned exhausting type ventilation system uses the main and service inclines for fresh air intake and the ventilation incline for the return air exhaust. Planned ventilation capacity is 6,000 m^3/min; current ventilation is 3,000 m^3/min. The return incline is equipped with a fan (2 x 132 kW) with an identical backup system. There is no diesel generator but rather two independent power supplies.

Ventilation planning for No. 1 follows typical design practices. LW face quantities are projected at 1,200 m^3/min; development face quantities are 360 m^3/min. Planned air quantities are higher than typical practice due to the use of the diesel-powered vehicles for transport of personnel and materials. Similar ventilation planning is anticipated for the No. 2 Mine.

Typical of lower rank coals, the coal seams in the Nianpanliang mines are rated as having significant potential for spontaneous combustion. Proper sealing of gob areas and appropriate ventilation designs may reduce the oxidation process and prevent spontaneous combustion. Alternately, measures for rendering sealed areas inert, such as nitrogen injection, may be required. During BOYD's most recent site visit, nitrogen injection equipment was observed. Injection holes are drilled from adjacent gate roads (approximately 20 m in length) into the gob areas 50 m behind the retreating LW face. Each hole is injected for 5 to 6 days; capacity of the pumping equipment was reported to be 400 m^3/hr.

Based on flame-length tests, the coal dust expected to be generated by Nianpanliang mining operations is classified as having explosive potential if ignited. Standard measures to control dust include:

- Water injection into the coal seam before mining.
- Reducing float dust as much as possible by using water sprays in the development and LW face areas (equipment-mounted typically), along belt conveyor installations and underground transfer points (bunkers, chutes, etc.).
- Limiting ventilation air velocities to minimize fugitive dust pick-up.
- Removal of coal debris along belt conveyor lines and in the development faces with washing of roadways as required.
- Wet drilling techniques for development and LW coal face blasting.
- Periodic cleaning and re-whitening of roadways as needed.
- Installation of self-dumping hanging water bags in gates and other roadways.

Although not typically used in Chinese mines, BOYD recommends applying limestone dust in LW gates as a precautionary safety measure to minimize propagation of potential face ignitions. This practice was not observed during our site visits.

4.4.5 Water Management

Water generation at the Nianpanliang mines is expected be relatively low based the geologic setting and climatic conditions and is easily controllable according to historical regional operating experience. Typical water generation at the No. 1 Mine has been 25 m^3/hr. Design reports indicate a maximum generation of 35 m^3/hr, slightly higher than the 20 m^3/hr projected for the adjacent Fanjiacun Mine. Fractured sandstone and unconsolidated sand layers in the overlying strata and the shallow operating depth may result in higher rates of water generation, although no water-bearing strata hazards have been identified. The water sump, pump room, and pipelines are designed to accommodate higher water pumping requirements than projected in recognition of potentially higher water generation rates. The planned underground pumping facility has three pump sets (each rated at 46 m^3/hr), which provide adequate redundancy for anticipated water generation. Significant water generation was not observed during BOYD's most recent site visits.

The potential for high water generation rates remains a significant concern, and additional analysis of the sandstone and sand layers and related hydrology is recommended. Surface dewatering of the water above the LW districts in advance of mining operations could be beneficial if deemed appropriate, although this is unlikely.

4.4.6 Electrical Power

Electrical power is provided regionally by the Inner Mongolia power grid. Incoming power at 110 kV is provided from the Dongsheng Eastern suburb transformer station, which is located 3 km away from the mine. An additional potential source is the Tongchuan 35-kV transformer station located 5 km away from the mine. Two separate lines at 35 kV are planned for installation between the two stations and the mine. Power is distributed at 10 kV to the underground distribution systems.

4.4.7 Mine Surface Facilities

Surface facilities constructed at the No. 1 Mine surface complex provide adequate accommodations for all aspects of the mining operation, including: administration and mine manager offices, materials and parts storage, machinery shops, electrical and maintenance areas, shower rooms, locker rooms, bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc. These facilities will need to be expanded as planning progresses for the No. 2 Mine, as the present plan is to have one central facility supporting both mines.

4.5 Mining Operations

4.5.1 Work Schedule

The operating schedules in the PDR and FSR for the Nianpanliang mines assume LW and development faces operate 330 days per year. The 330-day operating schedule is optimistic based on our experience with similar Chinese coal mines and may be the result of adherence to national design guidelines rather than an estimate derived from operational experience. Major festival periods and national holidays normally account for 15 idle operating days annually. Mine and equipment examinations, LW face transfers (moves), and repair periods account for remaining non-operating days. Labor staffing levels are low during the major festivals, and the mine is idled for maintenance activities during these periods. A reasonable expectation is 300 working days in a year. Once in operation, the LW face(s) are expected to work three 8-hour shifts per day, with an idle period dedicated to equipment maintenance and face preparation. Development sections are scheduled to work three 8-hour shifts per day. The average worker typically works 245 days per year.

4.5.2 Mining Conditions

Exploration drilling indicates the presence of weak layers in the roof and floor strata associated with the coal seam deposition. Experience at nearby mines also indicates that there is potential for roof control problems. Actual observations made by BOYD during underground site visits confirm this issue. This condition may be related to the thin (less than 50 m) overburden cover in this location. The tailgate of the initial LW face (1131) was partially narrowed in an extended area by 20 m due to difficult roof conditions encountered during gate road development. Longwall face shields are positioned so that the LW can return to the original design length when LW face retreat has passed the narrowed face area.

In both the No. 1 and No. 2 mines, roof bolting (1.8 m with 18 mm diameter and 6.3 m with 22 mm diameter rock bolts) and shotcrete applications are planned for the ribs and roof in the main roadways in each seam level, supplemented by steel beam installations (800 mm spacing), additional bolting (1.8 m with 18 mm diameter) and wire mesh installation in the gate roads. The proposed opening support design and bolting plan appear adequate. Observations made during our site visits confirm adherence to the proposed plans and adequacy of methods to control roof and rib conditions while remaining productive. As mine workers gain operating experience within the coal seams at Nianpanliang, it is anticipated that they will become more adept at handling variable conditions.

While roof control issues may occur, mining conditions appear to be favorable. The Nianpanliang coal seams have low methane content and are not expected to experience large water generation.

4.5.3 Mining Methods

Roadheader sections are planned as the primary means for development of LW gates and main roadways in both mines, supplemented by conventional drilling and blasting techniques as needed. LW mining methods originally planned for the No. 1 Mine include: FM full seam extraction and FM with sublevel caving. However, mine management is considering the use of a high profile, FM LW face in place of a sublevel caving face in the No. 4-1 Seam. The No. 2 Mine is designed to operate with two FM faces, one of which is equipped with sublevel caving equipment, although this remains under review.

Several faces in the northern portion of No. 1 are located beneath less than 50 m of cover. LW mining at such shallow depths may be problematic; Chinese geotechnical practice indicates that mining with less than 50 m of overburden cover is not prudent. LW face operation may be compromised because of the instability caused by excessive water infiltration and incompetent roof (extensive strata fracturing) likely to occur under shallow depths of cover. Pressure on the LW shields can be abnormally high because the shields are supporting the entire overburden load rather than the immediate roof below the main roof. We have adjusted our mine plan projections and reserve estimates accordingly to exclude areas with less than 50 m of overburden depth.

4.5.4 Mine and LW Development

The Nianpanliang Nos. 1 and 2 mines have several similar development characteristics. Mining will take place on several levels over the life of the mines. Each mining level corresponds to the various seams scheduled for mining. The design plans for both mines focus on the thick No. 4-1 Seam, which is the location of the primary mining level; the No. 3-1U Seam is mined from auxiliary levels connected to the main level. Both mines later move to a second primary mining level in the No. 6-2 Seam, from which miners can access mining levels in the No. 5-1U Seam.

The No. 1 Mine is designed for simultaneous multi-seam LW mining operations. Mining activity is projected to sequence through the No. 3-1U Seam to the No. 4-1 and No. 6-2 seams. The final mining level, in the No. 6-2 Seam, does not begin production until after the No. 4-1 Seam reserves are nearly depleted.

Each seam employs roadheaders and conventional drill and blast sections for development of main roadways and gates. Development rates using roadheaders are projected at 15 m per shift supported by continuous haulage (narrow 1.0-m-width flexible belt conveyor) equipment and 5 m per shift utilizing mobile haulers. Actual experience at the No. 1 Mine has been slightly better than planned, with crews advancing nearly 20 m (3.6 m x 3.2 m opening), per day in the headgate, marginally slower in the tailgate (4.2 m x 3.2 m opening), and 10 m per day in main roadways utilizing mobile haulers and narrow flexible belt conveyors. Two Jiamusi Coal Mining Machinery Co. Ltd. S132 roadheaders are operated by the contractor (ZCPC), while two SANY S132 roadheaders are operated by No.1 Mine personnel.

The main roadways (three roadways for belt conveyor, service, and return airway) in each seam are oriented from north to south following a high voltage power transmission line (110 kV) on the surface. This efficient design allows the main roadways to be developed in the barrier that must be left intact to support the overlying power line. The LW faces are oriented east to west on the eastern side of the main roadways. The first LW face in each seam is located near the seam level bottom to facilitate a rapid start for LW mining. LW faces on the western side of the main roadways are oriented north to south off submains roadway development to enhance reserve recovery. The north-south face layout is the most efficient for this area of the mine, but assumes that the north-south orientation is suitable for stable LW face operations. The relatively flat seam should allow for this, unless horizontal stress negatively impacts performance. Regional mining experience shows this should not be an issue.

The proposed No. 3-1U Seam LW face layout for Mine No. 1 is shown in Figure 5.3, following Chapter 5. This face layout and design is replicated in each seam level to the extent that coal seam conditions permit. Thin coal areas (generally less than 1.5 m in thickness) are not recovered.

The LW faces in the No. 1 Mine were initially designed with 150-m face widths and strike lengths of up to 1,600 m in the No. 3-1U Seam. Hengtai has subsequently increased the face length to 200 m. Strike lengths in the No. 4-1 Seam are identical to those in the No. 3-1U Seam. No. 6-2 Seam strike lengths range up to 1,600 m. The LW faces are developed with headgates and tailgates, with 20-m pillars between the gates.

The LW mining sequence in the No. 3-1U Seam after completion of mining in the first face is projected to move the adjacent northern face (1133) in the No. 1 Mine. Approximately 590 m of LW retreat has been performed thus far; an additional 900 m remains within the 1131 face. There were no visible or thick partings observed in the No. 3-1 Seam during our site visit. The FM face operating in the No. 4-1 Seam must stay behind the No. 3-1U LW face retreat to avoid sterilizing resources in the No. 3-1U seam level. Generally this is not an issue with sublevel caving faces, as they are inherently slower than a full seam cutting FM face in the same face layout design and mining conditions. However, with the consideration of full extraction methods for the No. 4-1 Seam, proper face sequencing will remain critical to mine planning.

The planning for the No. 2 Mine is less advanced and is subject to significant modification before commitment to a final design. The No. 2 Mine is planned to have two simultaneously operating FM LW faces, with supporting roadheader and conventional drill and blast development sections. As with the No. 1 Mine, the roadheader faces develop the main and gate roadways and are supplemented as needed with drill and blast faces.

The No. 1 Mine plan area has four surface features (shown on proposed mine plan figures) that must be supported in terms of restricted LW mining and which significantly affect mine planning:

- 220-kV power line.
- Two 110-kV power lines.
- Dongsheng Beltway (highway).

A life-of-mine face layout was not available for the No. 2 Mine, although the basic LW face design is anticipated to follow the No. 1 Mine design for face width, strike lengths, dual gate development, etc. The most efficient layout appears to be orienting the main roadways under the Dongsheng Beltway (highway) and developing the LW gates and faces in north-south orientation from the east-west mains. This assumes that the north-south face orientation is stable for mining operations. Unlike the No. 1 Mine, seam conditions (cover depth and coal seam thickness) in the No. 2-1L Seam in the No. 2 Mine support application of an FM LW face. To avoid potential sterilization of coal resources, the FM faces must be sequenced so that the uppermost seams are extracted in descending order. Alternately, the LW faces may be developed in east-west orientation. For this study, BOYD designed a life-of-mine layout with design criteria similar to those used for the No. 1 Mine design.

4.5.5 LW Operations

The No. 1 mine plan will utilize two FM LW faces composed of domestically manufactured equipment. Shields (1.5 m) observed at the No. 1 Mine were made by Pingdingshan Coal Mining Machinery Company Ltd. The current face is comprised of 124 shields with a support height of 1.7 m to 3.5 m and working resistance of 6,800 KN. Single hydraulic jacks provide support in the headgate and tailgate outby for 20 m.

The domestic shearer installed on the 1131 FM face has a cutting height range of 1.8 to 3.5 m, with 600-mm cutting depth and 700 kW power. This shearer design will be upgraded on the second LW system in the No. 3-1 Seam to 800 mm cutting depth and 1,180 kW power to generate faster cutting times and increase productivity. (capital spending is estimated at RMB5.3 million) The 764-mm width, armored face conveyor, rated for 1,000 tph, is powered by two 400-kW drive motors. The 1,000-tph stageloader has a 160-kW motor. The working LW face was idle during our most recent visit due to belt repair and idle period. Mine management reported the face currently is averaging 13 to 14 cuts per day, or approximately 8 m per day of retreat. The gob was tight against the shields during our visit.

An FM face with sublevel caving capabilities was originally planned for the thick No. 4-1 Seam. These faces typically are designed to have the same range of cutting and loading capacities as a standard FM LW face for initial pass mining. An AFC, similar in capacity to the forward AFC, is designed into the rear area of the shield assembly. Hydraulically operated doors in the shield canopies allow coal not recovered during the initial shearer pass to break and collapse into the rear AFC for transport to the gate belt conveyor. Typically, the seam is several meters thicker than the maximum cutting height of the shearer. Sublevel caving techniques are used widely in the Chinese coal industry and have been highly successful in resource recovery. The PDR and FSR studies do not specify specific shield roof support models, but there are several suitable domestic models for this application. LW shields capable of sublevel caving are appropriate for the thick No. 4-1 Seam. Projected equipment remains subject to mine expansion considerations, evaluation of the potential of FM full seam extraction LW mining using high profile LW face equipment, and review of general geologic conditions.

The No. 2 Mine plan projects FM faces, composed of domestically manufactured equipment, one with standard full seam mining capabilities and an FM face with sublevel caving capabilities for the thick No. 4-1 Seam. Equipment capabilities are expected to be similar to those installed in the No. 1 Mine. High profile LW face equipment is also under consideration for the No. 4-1 Seam.

4.6 Coal Processing

Surface raw coal screening supplemented by hand-picking is planned at both mines for preparing the raw coal for market. Screens size the ROM coal from the belt incline at 50 mm. Oversize material from the screens is hand-picked to remove rock. While raw coal screened quality is difficult to accurately project, surface screening removes a portion of the out-of-seam and parting material and may reduce the ROM ash content by three to five percentage points. Raw coal quality is also difficult to project since at least two seams are extracted at any one time. In July 2009, two workers per shift were assigned to hand-picking since refuse (rock) is less than 1% of the ROM coal.

Care is used underground in separating rock from coal during development mining. LW operations also take measures to limit OSD. Other processing approaches may be considered, depending on operating experience and raw coal quality. ROM production from the Nianpanliang mines is expected to have a 300-mm top size with the following size distribution based on 50-mm sizing:

Product Distribution

Size	**Proportion** *(%)*
Coal 300-50 mm	24
Coal <50 mm	75
Refuse	1

Minus 50 mm coal is conveyed to three 5,000 tonne bunkers with truck loading facilities that have been constructed at the No. 1 Mine. Coal is then loaded into 40 tonne trucks for transport to markets. The remaining ROM coal following hand picking is conveyed to an open stockpile yard (20,000 tonne capacity). Refuse is temporarily stored in an adjacent yard for use as backfill and/or subsidence repair. Although railway transportation may become a possibility for Mine No. 1 output, that would depend upon finding customers along the Baosheng railroad, which is presently under construction. Mine No. 2 is expected to ship directly to the power station following construction. Recent coal test reports for product coal (bunker samples) are as follows:

		2009	
	30 April	**20 May**	**30 June**
Characteristic			
Total Moisture *(%)*	12.5	13.4	13.7
Ash *(d, %)*	5.9	4.9	5.6
Sulfur *(d, %)*	0.42	0.54	0.34
Vol. Matter *(daf, %)*	33.8	32.7	33.4
Calorific Value *(Net ar, Kcal/kg)*	6,120	6,060	6,010

4.7 Worker Safety

Based on the geologic, technical, and operation characteristics and new mine features of this project, health and work safety aspects and accident prevention measures regarding coal seam methane, coal dust, spontaneous combustion, flooding, electrical safety, roof control, and personal health and safety requirements are incorporated into the mine design in accordance with the national mine safety regulations. A mine-wide monitoring system (model KJ175N) has been installed at the No. 1 Mine; a similar system is planned for the No. 2 Mine. The system is designed for monitoring of underground operations, ventilation controls, mine environment, etc. Video terminals monitor specific underground locations. It is BOYD's opinion that the proposed health and safety measures are prudent and follow common practice in China.

BOYD recommends that the mines adopt the international practice of applying limestone rock dust to the interior of the mine in order to reduce the risks of dust ignitions and fires. Liberal use of water sprays on mining equipment will also minimize the presence of respirable and ignitable dust in the mine atmosphere.

Hengtai conducts or provides for worker education and safety training programs for all levels of mine staffing. The training programs encompass awareness of safe production policies, coal mining related laws and regulations, potential dangers and occupational aspects of coal mining, rights and obligations for safety production positions, self protection methods, disaster avoidance, self rescue methods, general mine rescue methods, basic knowledge of safety facilities, common accidents prevention and emergency measures, use and simple maintenance of individual safety gear and prevention of occupational diseases, and basic task training work for positions and postings. Typical basic and refresher training course contents include laws and regulations of safe coal mine production, coal mine safety management, safety technology, emergency plans, mine rescue methods, and accident case analyses, etc. Hengtai staff may provide internal training supplemented by professional trainers; the company also will send higher level staff members to designated institutes for specialized training.

5.0 FUTURE MINE PLAN

5.1 Introduction

Documentation provided by Hengtai, including the September 2006 PDR for the No. 1 Mine and the July 2006 FSR for the No. 2 Mine, discusses the technical basis for output capacity designs of 1.2 Mtpa. Since these reports were generated, the planned full production capacities of the proposed mining operations have significantly expanded. The projected output provided by Hengtai for the No. 1 Mine attains 6.0 Mtpa within the five-year mine plan projections; the output capacity for the No. 2 Mine increases to 2.4 Mtpa (with the possibility of further expansion). To our knowledge, PDR or FSR reports supporting these higher output levels had not been generated as of August 2009, when BOYD completed its work on the project. We have developed independent projections of output and labor staffing and operating costs for these higher output levels based upon the existing PDR and FSR mine design work, which was utilized in our analysis and provided a basis for expanding mine operations. The BOYD and Hengtai mine plans assume timely approvals for the higher output capacities from the relevant regulatory authorities, and successful acquisition of the mining rights for the uncontrolled No. 3 Mine area.

5.2 Mine Output

5.2.1 FSR and PDR Design Projections

The Nos. 1 and 2 mines were originally designed with a capacity of 1.2 Mtpa each, based upon the design criteria, as shown in the following table. The mines' raw coal output is determined primarily by assumptions on the number of working days and LW face advance rates.

	Nianpanliang Mines as Designed	
	No. 1 FM	**No. 2 FM**
Annual Operating Days	330	330
Cycles/Day	9	12
Cycle Cut Depth *(m)*	0.6	0.6
Cycle Rate	0.90	0.93
Annual Meters of Retreat	1,604	2,210
Cutting Height *(m)*	3.2	2.4
Coal Density *(tonnes/m^3)*	1.31	1.31
Availability	0.95	0.95
Face Width *(m)*	120	159
Longwall Output *(Mt)*	0.767	1.049
Development Production Ratio *(%)*	6	15
Development Tonnage *(Mt)*	0.046	0.157
Raw Tonnes/Year *(000)*	0.81	1.21
Raw Tonnes/Day	2,464	3,656

The design capacity assumes 330 operating days per year, 16 hours of operating time per day, and 95% availability. These operating assumptions reflect recently implemented Chinese regulations governing mine design and feasibility analyses and are not based on general mine operating benchmarks. While providing reasonable targets for mine capacity and efficiency, the projected operating level is typically not attained in practice. On the other hand, many large Chinese coal mines exceed the lower end of the operating range in terms of annual operating hours. Actual output will be lowered if the mine is forced to miss days for regulatory safety closures, incidents such as mine fires, and/or unusual maintenance-related events. A reasonable estimate for a mine with high operating standards is 315 operating days, 16 operating hours per day, and 90% availability.

5.2.2 Hengtai Projections

Hengtai projections increase the planned production capacity at both mines with upgrades in FM face equipment and by increasing the width of the LW faces from 150 m to 200 m at both mines. The start-up of LW face operations in the No. 1 Mine commenced in December 2008, with one FM LW face developed in close proximity to the incline bottom operating in the No. 3-1U Seam. A second FM LW face equipped with an upgraded shearer (replacing the current FM LW face) is projected to begin operation in the No. 1 Mine in late 2009. The FM LW face equipment currently in use in the No. 1 Mine will be utilized in the No. 2 Mine. Installation of a high profile, FM LW face in the thick No. 4-1 Seam is planned in April 2010. No. 1 Mine output capacity of approximately 6.0 Mtpa is projected to be attained in 2011. Provided the higher output levels are approved, key infrastructure components will be upgraded to accommodate the higher output levels. Hengtai is reviewing installation of a Con-Mech face in the No. 5-1U and No. 5-1L seams.

Development of the No. 2 Mine hinges upon acquiring the mining rights for the No. 3 Mine Area. Initial LW installation will be expedited by utilizing established underground development from No. 1 Mine. Tonnage projections and mine timing was not provided for the No. 2 Mine during our July 2009 site visit. Full output capacity at the No.2 Mine of 2.4 Mtpa is projected to be attained in 2011 based on discussions with Hengtai. Projected buildup in Nianpanliang coal output based on these inputs is as follows:

	Planned Raw Coal Output (Mt)		
	No. 1	**No. 2**	**Total**
2009	1.4	–	1.4
2010	5.0	0.5	5.5
2011	5.9	2.4	8.3
2012	5.9	2.4	8.3
2013	5.3	2.4	7.7

Coal production from the No.1 Mine year to date is as follows:

Month	Mine No. 1 – 2009 Output Tonnes *(000)*
Jan	6.4
Feb	33.8
Mar	34.7
Apr	36.1
May	98.0
Jun	158.7
Total	367.1

Standard practice within the PRC requires new mines to undergo a testing period following start-up. The test period typically extends between two and six months, during which time mine systems are evaluated and debugged. Regulatory officials also inspect the mine and its infrastructure. Mines in test start-up mode typically do not attain their rated or authorized output capacity during this period. The mine completed its test period in November 2009.

Hengtai's 2009 output projection of 1.4 Mt for No. 1 Mine is reasonable based on observed conditions and FM LW face production capacities. Attaining the 2010 output projection of 5.0 Mt will require a significant expansion in the conditional 2.4 Mtpa output authorization. Hengtai has provided no guidance on the status of its application for the significantly higher output levels.

5.2.3 BOYD Projections

Using Hengtai's scheduling for 2009-2013 and the face design for the No. 1 Mine as a starting point, BOYD developed five-year mine scheduling for No. 1 Mine.

5.2.3.1 No. 1 Mine Design

The BOYD No. 1 Mine design and five-year production schedule was developed with similar production parameters as the proposed Hengtai production schedule. The basis for the mine layout and, to an extent, scheduling was prepared by the Inner Mongolia Autonomous Coal Mine Design and Research Institute (Research Institute) and Hengtai. There are three primary coal seams that are mineable by LW methods in the No. 1 Mine area.

However, unlike Hengtai plans, BOYD sequencing reflects earlier depletion of the reserves within the No. 1 Mine due to the exclusion of LW mining in shallow cover areas (less than 50 m) in the No. 3-1U Seam and under barriers for protecting a 110-kV power line in the northeastern area of the No. 1 Mine area. According to Hengtai, undermining of the power line is possible with an understanding of the power line's customer, a nearby underground coal mine. BOYD has concerns for LW face stability in areas where the overburden is less than 50 m. Both Chinese and international practice recognize potential LW face stability issues in shallow cover areas. We accept that recovery of coal in shallow areas and under the 110-kV power line may be possible, but we have excluded these areas from our analysis.

Based on our production parameters, the No. 3-1U reserves within the No. 1 Mine are depleted in 2013. Production from the No. 6-2 Seam is expected in 2014. It is possible that production in the No. 6-2 Seam could commence earlier if infrastructure, development, and transition of equipment and personnel can be expedited.

The LW face retreat rate projected by Hengtai is 231 m per month in the No. 3-1U Seam and 264 m per month in the No. 4-1 Seam assuming high profile face operation. Projected retreat rate are reasonably attainable with current domestic equipment operating in the anticipated mining conditions. However, in our opinion, the retreat rate in the thinner No. 3-1U Seam would exceed the retreat rate in the thicker No. 4-1 Seam. We project the LW face retreat rate at 250 m per month in the No. 3-1U Seam and 225 m per month in the thicker No. 4-1 Seam. A one-month delay for LW face moves is projected in face scheduling, consistent with Hengtai's projections. The LW face layout provided by the Research Institute indicated that face orientation (east-west and north-south) was not an issue for face layout.

There are two LW faces (1133 and 1135) projected adjacent to and north of the current 1131 face. BOYD eliminated two of the No. 3-1U LW faces (1137 and 1139) projected in the Hengtai design due to insufficient cover depth (< 50 m). There are several areas in the BOYD mine plan with less than 50 m depth (see Figure 5.3, following this text). LW face performance in the shallower areas encountered early in the sequence should provide better insight into mining conditions under shallower cover.

The No. 4-1 Seam is the thickest seam within the No. 1 Mine plan, averaging 6.3 m in thickness. Previous plans to use sublevel caving equipment have been replaced in favor of FM, high profile, full extraction face equipment. Utilizing this type of LW face equipment, BOYD has projected 100% recovery of the first 5.5 m of seam thickness, with the remaining thickness lost. The first LW face within the No. 4-1 Seam (2141) projected to be operational in May 2010 by Hengtai, underlies the initial 1131 LW face in the No. 3-1U Seam. LW faces in the No. 4-1 Seam are sequenced according to over-mining in the 3-1U Seam.

In order to meet the design capacities projected later in the mine plan, mining will need to be implemented in the No. 6-2 Seam as the 3-1U Seam is depleted. LW faces in the No. 6-2 Seam will also be sequenced according to over-mining.

5.2.3.2 No. 2 Mine Design

The BOYD No. 2 Mine design utilizes north-south face layouts to achieve greater reserve recovery and minimize mains development and LW face move delays associated with short strike length distances. The LW faces are designed according to depth of cover (>50 m) and seam thickness (>2.0 m) constraints. The No. 2 Mine plan developed by BOYD uses 200-m face lengths. The No. 2 Mine's operating life is projected at 16 years, with 14 years at the 2.4-Mtpa output capacity. The No. 2 Mine design projects mains development under barriers left for the Dongsheng Beltway (highway) and the high-voltage power lines. The design also assumes surface facilities would be located in the north-central portion of the mine boundary and would not affect recovery of the projected LW face layout.

The LW face retreat rates vary depending upon the seam thickness, with retreat rates ranging between 160 to 220 m per month, with the highest rates projected in the thinner seams. Assuming that all of the recoverable coal in the No. 2-1L Seam is mined in advance of mining in the No. 2-2 Seam, mine output may be constrained in the mine's initial operating period.

Mine No. 2 LW face equipment by seam is summarized as follows:

Seam	**LW Face Equipment**
2-1L	Mid-Range FM LW
2-2	Mid-Range FM LW
3-1U	Full-Range FM LW
4-1	Full-Range FM LW*
5-1U	Mid-Range FM LW
6-2	Full-Range FM LW

* *Potentially with sublevel caving capability.*

5.2.3.3 Nianpanliang Output

Projected Nianpanliang coal output projections based on BOYD No. 1 Mine scheduling and the assumption that the mining rights for the No. 3 Mine area are acquired by mid-2010 and the No. 2 Mine is developed in a timely manner, are as follows:

BOYD Output Projections (Mt)

	No. 1	**No. 2**	**Total**
2009	1.4*	–	1.4
2010	4.4	–	4.4
2011	5.6	0.6	6.2
2012	5.4	1.5	6.9
2013	4.0	2.4	6.4

* *Full year output projection.*

BOYD's No. 2 Mine projections assume that initial LW face production is in mid-2011.

Hengtai is projecting much higher output levels at the No. 1 Mine than the current conditional authorization of 2.4 Mtpa and 1.2 Mtpa for the No. 2 Mine. We agree that the higher output levels are attainable provided the key infrastructure components are upgraded for the higher output levels. For a new mine or a mine that has been upgraded, normal practice is to operate three years before applying for an increase in output capacity with the relevant regional authorities. Hengtai believes this waiting period can be shortened to as little a year after the mine test period is successfully completed. The mine completed its test period in November 2009.

A more substantive issue with increasing mine output is complying with mine service life requirements. According to Chinese industry regulations (Ministry of Construction and State Quality Supervision & Quarantine Bureau), an existing coal mine that undergoes upgrading (or expansion) generally must have a resource base that supports service lives longer than projected for Mine No. 1.

5.3 Labor Force

The PDR and FSR estimates of the labor forces required for the No. 1 and No. 2 mines at 1.2 Mtpa are summarized as follows:

Category	Shift 1	Shift 2	Shift 3	Shift 4	Subtotal	Payroll Factor*	Total
No. 1 Mine							
Production Workers							
Underground	35	79	79	79	272	1.4	381
Surface	9	23	23	23	78	1.3	102
Subtotal – Production Workers	44	102	102	102	350	483	
Management	–	14	–	–	14	1.0	14
Service	–	6	6	6	18	1.0	18
Total	44	116	102	102	364		515
No. 2 Mine							
Production Workers							
Underground	33	51	51	51	186	1.4	260
Surface	6	15	15	15	51	1.3	66
Subtotal – Production Workers	39	66	66	66	237	327	
Management	3	3	7	3	16	1.0	16
Service	3	12	12	3	30	1.0	30
Total	45	81	85	72	283		373

* *Payroll factor provides coverage for seven-day-per-week operation, injuries, and sickness.*

These projections provide a starting basis for evaluating labor force requirements of the mines, recognizing that the projected output levels of both mines are substantially higher than the FSR and PDR projections.

No. 1 Mine staffing (provided by Hengtai) as of July 2009 is reported to be 503 personnel, including 180 personnel employed by ZCPC. Current and projected staffing levels have the following breakdown:

Location	Category	Current	Projected
Underground	Mining	98	196
	Development	190	290
	Support	75	115
	Subtotal	363	601
Surface Coal Handling	Coal Transportation	24	30
	Processing	12	18
	Subtotal	36	48
Surface Support	Managers	8	8
	Engineering	12	12
	Support	46	56
	Subtotal	66	76
Other		38	38
Total		503	763

When the No. 4-1 LW face is installed, the workforce will increase to 763 personnel according to Hengtai. It is not known the extent to which temporary workers are being utilized for construction projects at the mine site and in the underground workings. At Hengtai's projected output levels, underground worker productivity, assuming underground staffing is 601 workers, would equate to 9,300 tonnes per employee-year (based on 5.6 Mtpa at full production). These productivity rates are high according to our experience with similar mines. We anticipate that staffing requirements will be higher than projected.

BOYD has developed independent estimates of labor requirements for the mines, taking into consideration the higher output capacity and the additional LW face production and development faces. Labor force staffing estimates for No. 1 and No. 2 mines at projected output levels are summarized as follows:

Category	Shift 1	Shift 2	Shift 3	Shift 4	Payroll Factor*	Total
No. 1 Mine						
Production Workers						
Underground	162	192	192	546	1.4	761
Surface	30	60	60	150	1.3	197
Subtotal – Production Workers	192	252	252	852		958
Management	–	39	–	39	1.0	39
Service	–	20	20	40	1.0	40
Total	192	311	272	775		1,037
No. 2 Mine						
Production Workers						
Underground	144	184	184	512	1.4	715
Surface	15	45	45	105	1.3	138
Subtotal – Production Workers	159	229	229	617		853
Management	–	31	–	31	1.0	31
Service	–	20	20	40	1.0	40
Total	159	280	249	688		924

* *Payroll factor provides coverage for seven-day-per-week operation, injuries, and sickness.*

At the No. 1 Mine, additional workers for the second FM LW face are projected. We also increased the support worker staffing (belt conveyors, supplies, etc.). The office staff is increased to support the higher overall staffing. Generally, additional support workers are needed as the mine workings expand. Additional staffing is projected in the No. 2 Mine in similar fashion to staff a second FM LW face and provide adequate support for operations.

Underground productivity according to BOYD's staffing projection (761 underground workers) would equate to approximately 7,400 tonnes per employee-year (based on 5.6 Mtpa at full production) at the No. 1 Mine. Productivity (3,400 tonnes per employee-year) estimates at the No. 2 Mine are lower as a result of the lower projected output volume (2.4 Mtpa). Significantly higher productivity would be anticipated if Hengtai increases the 2.4 Mtpa output projection at the No. 2 Mine.

5.4 Capital Expenditures

Initial capital spending required to construct and equip the No. 1 Mine was significantly higher than previously estimated as a result of rapid escalations and substantial fluctuations in raw materials and construction costs in 2008. A summary of capital expenditures for the No. 1 Mine is as follows:

Capital Expenditures (RMB-millions) No. 1 Mine

Category	Projected	Actual (June 2009)
Mine Construction	46	69
Civil Construction	35	60
Equipment	136	159
Installation and Other	119	192
Contingency	34	–
Total	370	480

The expenditures outlined above, include a second FM LW face to be installed in late 2009. A breakdown of projected capital spending as provided by Hengtai for the No. 1 and No. 2 Mines in the period 2009-2011 is as follows:

	RMB (millions)			
Category	2009	2010	2011	Total
Surface Facilities	3.5	38.0	–	41.5
Underground Construction	2.8	33.0	–	35.8
Machinery and Electrical Equipment	1.8	16.0	–	17.8
Production Equipment	30.0	140.0	–	170.0
Monitoring Equipment	–	1.8	–	1.8
Miscellaneous Equipment	–	16.0	–	16.0
Equipment Installation and Other	–	80.0	30.0	110.0
Resource Fee	–	60.0	–	60.0
Total	38.1	384.8	30.0	452.9

Initial capital expenditures shown above are primarily for construction of the No. 2 Mine. Additional monies will likely be required to complete the production equipment requirements for the No. 1 and No. 2 mines, including high profile FM LW faces and the associated underground development and material handling equipment (i.e., additional roadheader faces, conveyor drives and belting materials, and electrical distribution cables and power centers). The No. 2 Mine capital spending projections are consistent with the FSR and previous Hengtai projections and may be somewhat understated.

The general level of capital requirements for the No. 1 and No. 2 mines are considered appropriate for the geologic setting and scale of operations. Factors contributing to the favorable capital costs include:

- Shallow operating depths.
- Thick coal seam conditions and associated higher projected output level.
- Unconsolidated Tertiary and Quaternary System strata are relatively thin, reducing the extent of special provisions for construction of mine access openings.
- Raw coal processing for market is limited to screening.
- Mine design uses a relatively compact pit bottom arrangement.
- Large tonnage output by Chinese standards.

Capital spending projections assume outright purchase of production, support, and infrastructure equipment with no provisions for leasing. Projected capital monies for production equipment are sufficient for the planned domestic LW systems. The capital contingency on remaining projected expenditures (project reserve and contingency) is not projected; we recommend using a 15% contingency.

Mine output at the No. 1 Mine surface facilities will be transported by truck to customers, who are mostly nearby power generators; no railway access is planned since the regional highway system is well developed. Monies for the truck loading facility are included with the mine construction funds. No capital spending is projected for village moves, as no additional moves are anticipated.

Ongoing sustaining capital expenditures for maintaining the mining operation as well as supporting routine mine extension were not provided. BOYD estimates that the mine will require approximately RMB30 million per year in sustaining capital in order to support infrastructure projects, mine extensions, replacement of minor capital items, etc.

5.5 Operating Costs

Projected operating costs from the PDR and FSR for the Nianpanliang Mines at a raw coal output of 1.20 Mtpa each are shown below. The reports do not provide supporting calculations for the various line item cost estimates.

	RMB/Raw Tonne	
	No. 1 Mine	**No. 2 Mine**
Operating Costs		
Labor	12.2	8.9
Materials	12.8	11.4
Power	8.7	5.4
Repairs	4.6	3.6
Management	1.5	1.5
Safety Fee	6.0	6.0
Sales Expenses	1.5	1.5
Simple Production Fee	3.5	3.5
Roadway Fee	2.5	2.5
Other	12.5	12.5
Depreciation	13.5	9.7
Amortization	9.4	7.4
Interest	7.9	6.9
Total – Operating Costs	96.5	80.7

Operating cost projections for the mines at the planned higher output levels were not provided for this review. BOYD's estimate of No. 1 Mine operating costs (excluding financial expenses) for the first five years of mine operation (2009 [Aug.-Dec.] -2013) based on BOYD's output projections are shown below.

Coal Output Tonnes (Mt):	1.40	4.40	5.60	5.40	4.00
			RMB/Tonne		
	2009	**2010**	**2011**	**2012**	**2013**
Operating Costs					
Cash					
Materials	12.0	12.5	9.8	10.2	13.8
Power	8.6	6.8	7.1	7.4	9.5
Labor	26.9	13.7	10.7	11.1	15.0
Welfare	3.8	1.9	1.5	1.6	2.1
Repairs	1.0	2.5	3.0	4.0	5.0
Sustainable Development	26.0	26.0	26.0	26.0	26.0
Other	23.9	18.3	16.6	16.6	19.3
Subtotal – Cash	102.2	81.7	74.3	76.9	90.7
Non-Cash					
Depreciation	13.0	9.1	7.1	7.4	10.0
Amortization	3.7	2.3	1.8	1.9	2.5
Production Maintenance Fee	5.5	5.5	5.5	5.5	5.5
Safety Fund Fee	6.0	6.0	6.0	6.0	6.0
Subtotal – Non-Cash	28.2	22.9	20.4	20.8	24.0
Total	130.4	104.6	94.7	97.7	114.7

Our comments on the No. 1 Mine operating cost projections are as follows:

- Power costs reflect major power usage from equipment and facilities over the course of a typical operating year. The power rate factor (power required to produce one tonne of output) has a high fixed component for an established mine infrastructure and equipment complement.

- Workforce salaries as calculated from the prevailing local rates average of RMB58,000 per year, which should be adequate to attract a workforce from the surrounding region. Welfare expense is calculated at 14% of salaries.

- Equipment maintenance (repair) costs are adequate for initial mine operation and are anticipated to increase over time as the equipment ages, according to our experience with similar mines.

- The "Other" cost category generally includes other labor benefits as shown below as well as mine-specific general and administrative costs, annual resource fees, etc. Benefit expenses (included in Other Costs) based on the direct salaries are shown below:

Cost Item*	**Percent of Salary**
Labor Union Costs	2.0
Personnel Education Fund	2.5
Labor Insurance/Pension	22.0
Housing Provident Fund	6.0
Injury Insurance	2.0
Unemployment Insurance	2.0
Hospitalization Premium	7.0
Total	43.5

* *These items are not included in Welfare costs.*

- The Environmental Recovery Guarantee Fund (not shown above) is a newly mandated fund in 2006 for Inner Mongolia, effective 2008 requiring mine operators to pay a certain amount to be used under the supervision of the government for the purpose of funding environmental projects related to coal mining activities. We anticipate that this fund cost will be passed through to customers of Inner Mongolian mines and will not reduce mine profit margins.

- The Coal Price Adjustment Fund (not shown above) is newly mandated for Inner Mongolia in 2009. Starting in July 2009, RMB15 per tonne will be collected for long flame coal produced from Inner Mongolia. We anticipate that this fund cost will be passed through to customers of Inner Mongolian mines and will not reduce mine profit margins.

- The Development Fund for Mine Transition (not shown above) is also a newly mandated fund in 2006 for Inner Mongolia Autonomous Region. Effective in 2007, this fund requires mine operators to pay a fee for the purpose of developing employment in non-mining industries, technical training, and social welfare. We anticipate that this fund cost will be passed through to customers of Inner Mongolian mines and will not reduce mine profit margin.

- Safety Fund and Production Maintenance ("Keep Simple Production") fees are generally considered as non-cash cost accruals (according to GAAP) for income tax calculations, although the monies may be utilized for mine-related projects.

- Depreciation costs are calculated using the straight-line method for fixed assets according to established asset depreciation lives and salvage value estimations. Amortization charges are calculated for intangible assets on a 10-year basis.

5.6 Pro Forma Cash Flow

BOYD's pro Forma Cash Flow analysis indicates a net cash flow after PRC taxes of RMB312 million and RMB550 million in 2010 and 2011, respectively.

Following this page are:

Figures
Nianpanliang Nos. 1 & 2
Map Showing Proposed Mine Plans
5.1: No. 2-1L Seam
5.2: No. 2-2 Seam
5.3: No. 3-1U Seam
5.4: No. 4-1 Seam
5.5: No. 5-1U Seam
5.6: No. 6-2 Seam

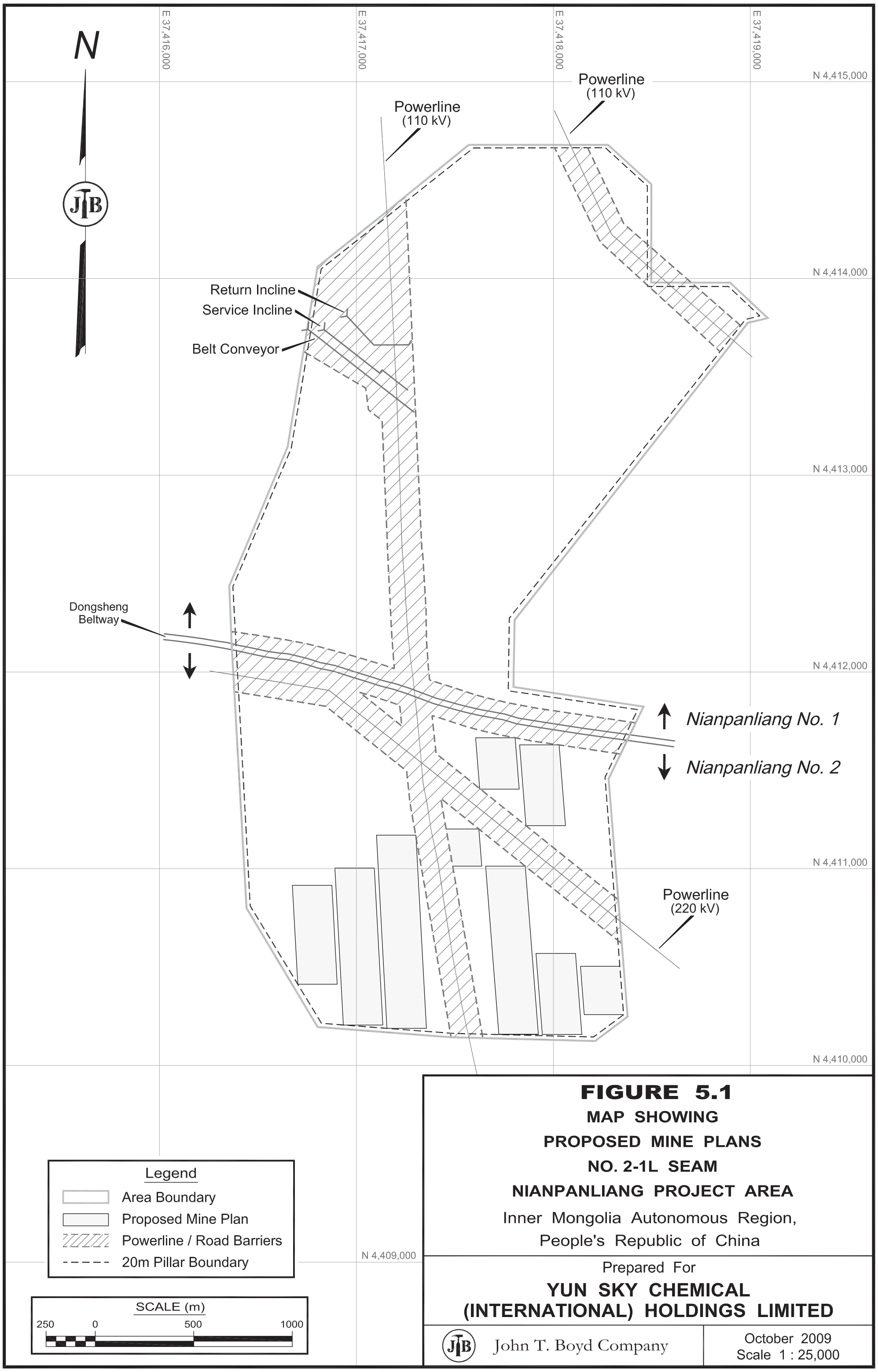


FIGURE 5.1
MAP SHOWING
PROPOSED MINE PLANS
NO. 2-1L SEAM
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China

Prepared For
YUN SKY CHEMICAL
(INTERNATIONAL) HOLDINGS LIMITED

John T. Boyd Company

October 2009
Scale 1 : 25,000

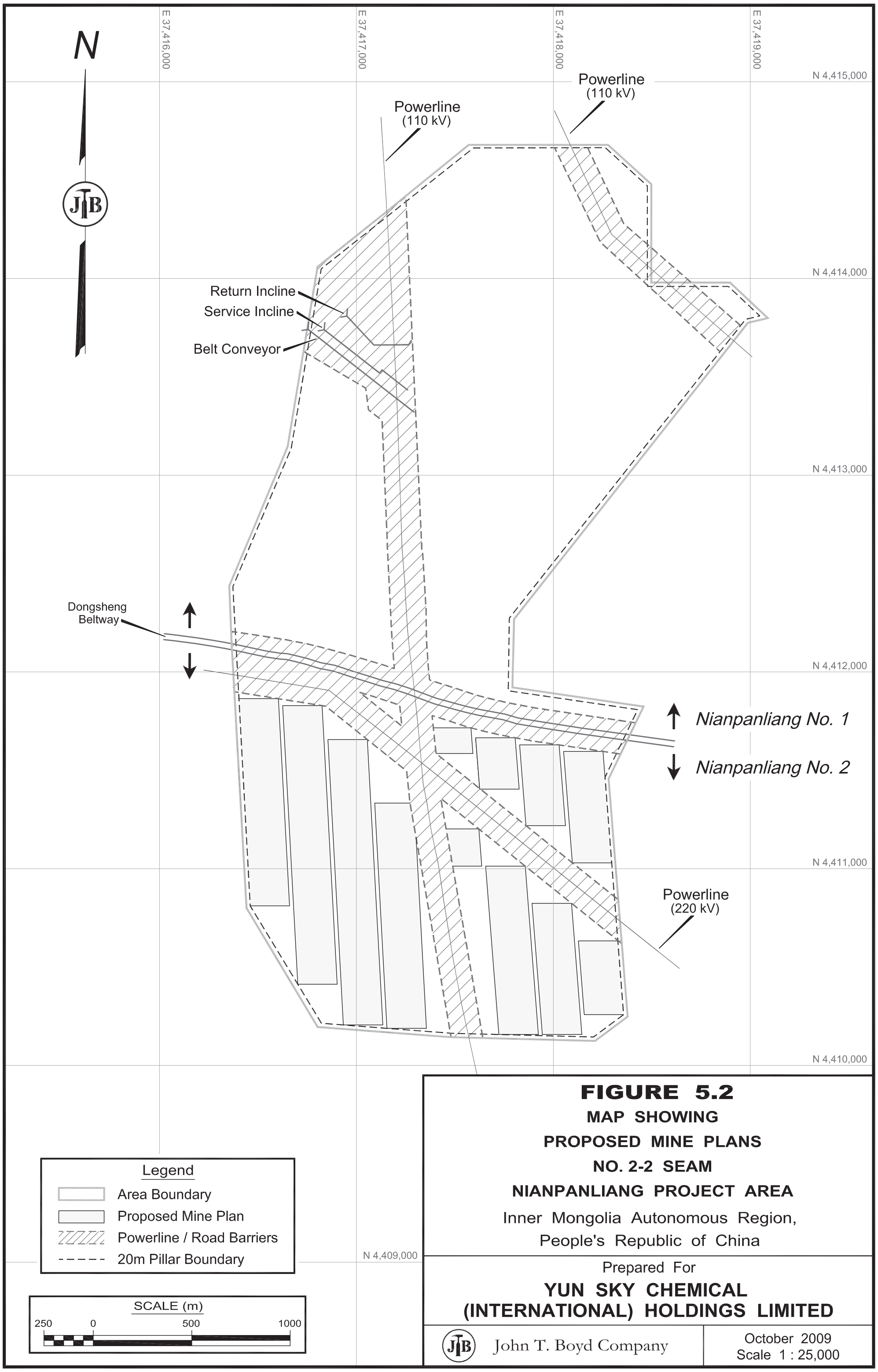


FIGURE 5.2

MAP SHOWING

PROPOSED MINE PLANS

NO. 2-2 SEAM

NIANPANLIANG PROJECT AREA

Inner Mongolia Autonomous Region,
People's Republic of China

Prepared For

YUN SKY CHEMICAL (INTERNATIONAL) HOLDINGS LIMITED

John T. Boyd Company

October 2009
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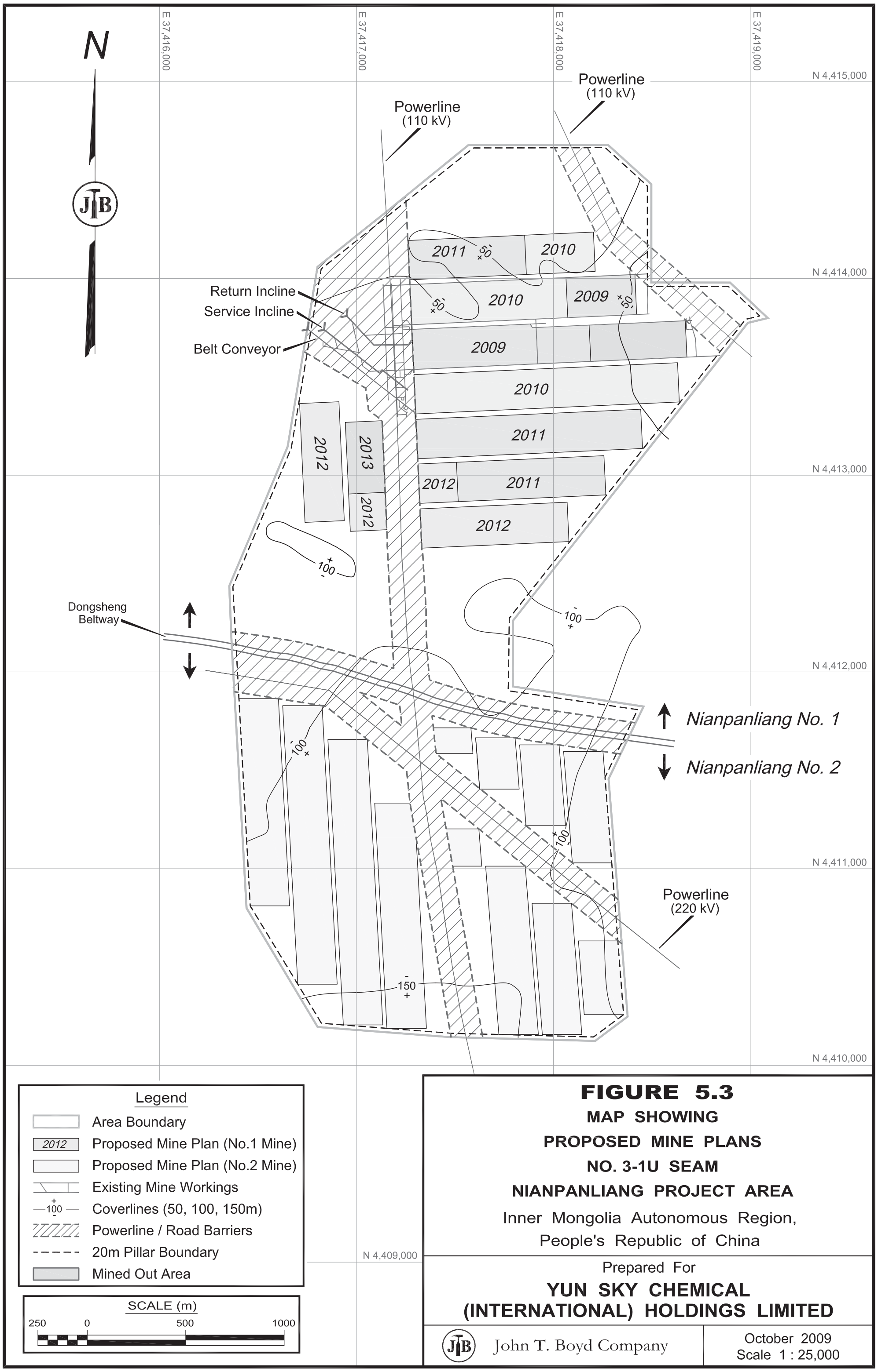

FIGURE 5.3
MAP SHOWING
PROPOSED MINE PLANS
NO. 3-1U SEAM
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China

Prepared For
YUN SKY CHEMICAL (INTERNATIONAL) HOLDINGS LIMITED

John T. Boyd Company
October 2009
Scale 1 : 25,000

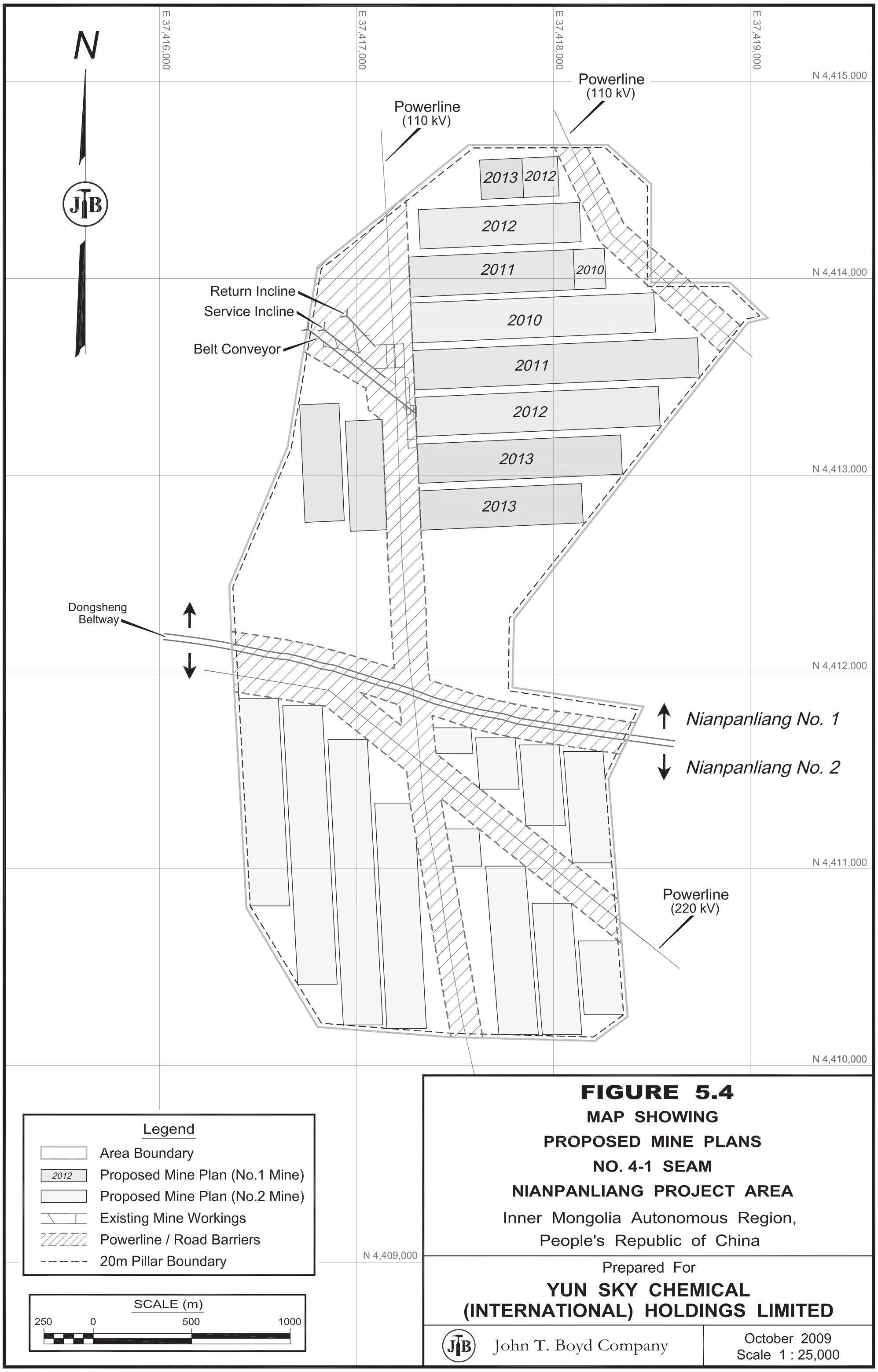

FIGURE 5.4
MAP SHOWING
PROPOSED MINE PLANS
NO. 4-1 SEAM
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China

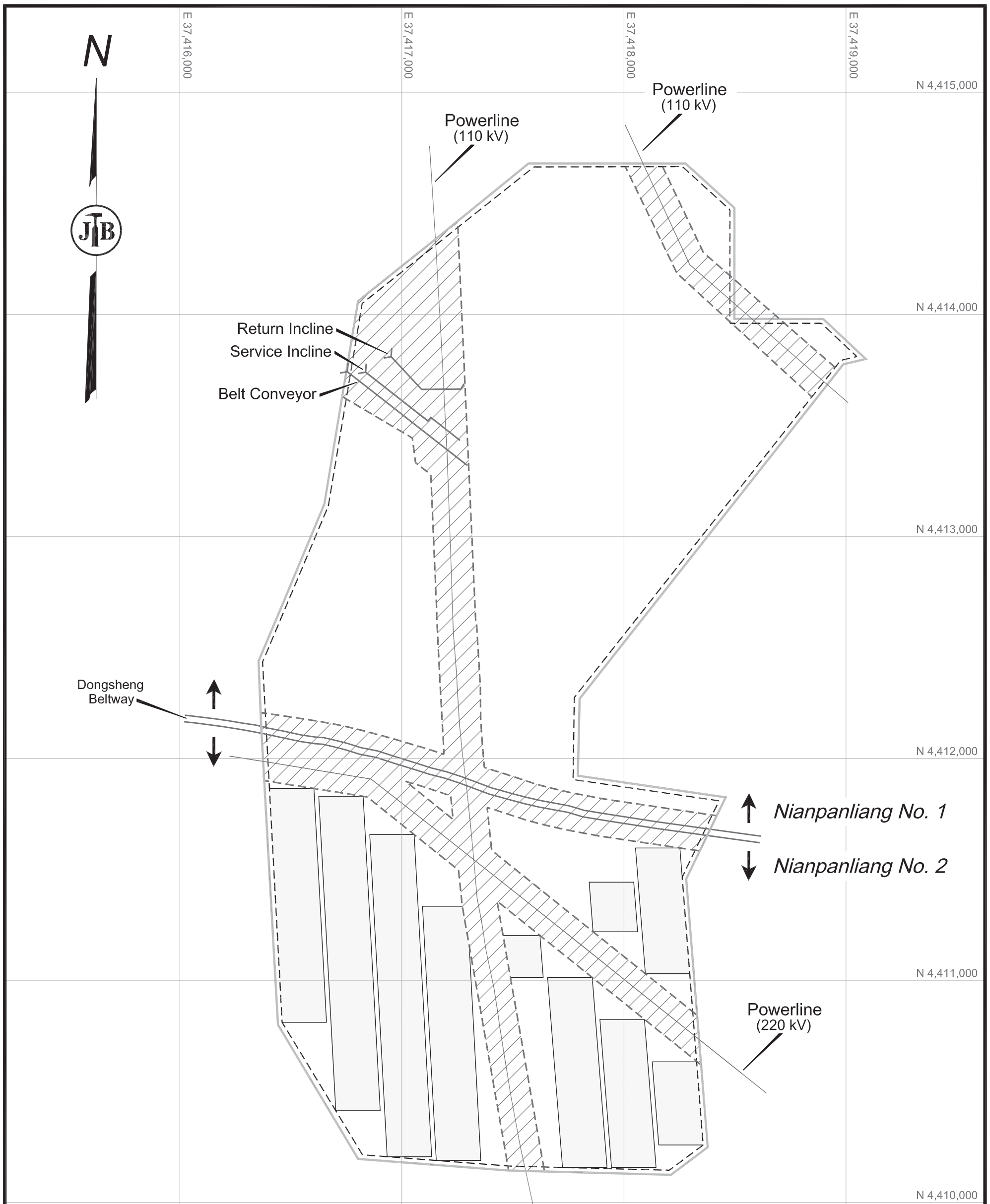

FIGURE 5.5
MAP SHOWING
PROPOSED MINE PLANS
NO. 5-1U SEAM
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China

Prepared For
YUN SKY CHEMICAL
(INTERNATIONAL) HOLDINGS LIMITED

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October 2009
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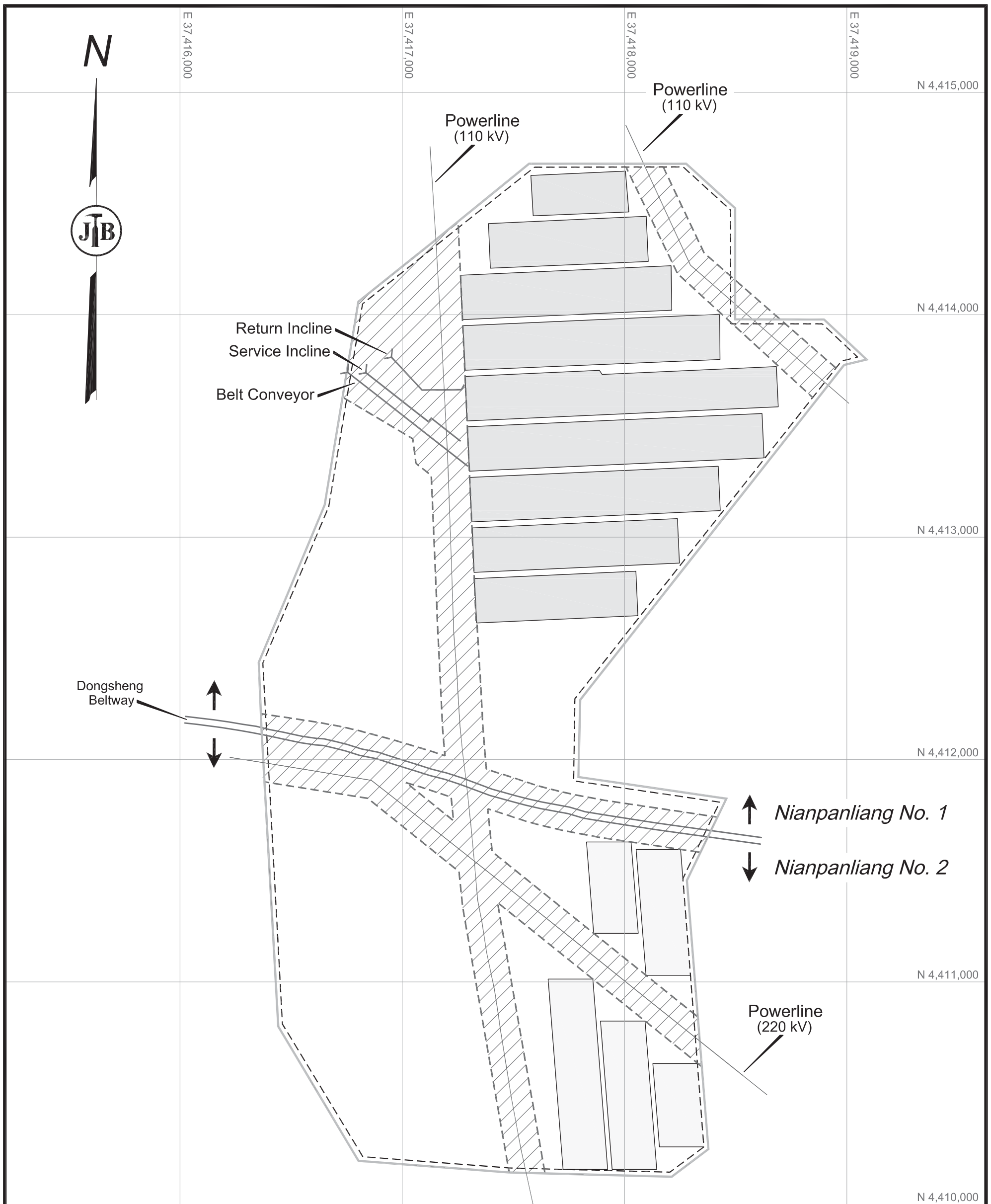

FIGURE 5.6
MAP SHOWING
PROPOSED MINE PLANS
NO. 6-2 SEAM
NIANPANLIANG PROJECT AREA
Inner Mongolia Autonomous Region,
People's Republic of China

Prepared For
YUN SKY CHEMICAL (INTERNATIONAL) HOLDINGS LIMITED

John T. Boyd Company | October 2009 | Scale 1 : 25,000

6.0 ENVIRONMENTAL OVERVIEW

6.1 Introduction

The physical environment where the Nianpanliang mines are planned to operate is arid and rocky. The terrain is characterized as hilly, with gullies or washes. Except for the surface footprint for the mine's facilities for offices, change-rooms, shafts, inclines, coal handling and stockpile areas, etc., the mine has little effect on the surface. Adverse impacts are largely related to surface land subsidence resulting from longwall mining, generation and disposal of coal refuse materials resulting from coal processing (screening), community by-products (e.g., handling of sewage), power and heating plant emissions, fugitive dust, and noise pollution. BOYD's July 2009 visit found the environmental conditions at the No. 1 Mine to be satisfactory. The environmental management office had not been established at the time of our visit.

6.2 Guidelines of the World Bank

The World Bank does not set explicit standards regarding environmental protection relating to mining activities. However, the Bank's guidelines and principles support the view that coal mining activities affect the environment and that environmental protections must be provided. Responsible environmental management on the part of the mining enterprises includes establishing the policies and practices companies must employ to protect the environment and to minimize the impact of mining and related activities. Based on our site visit and document review, BOYD is satisfied that the planning for the Nianpanliang Project recognizes environmental responsibilities.

6.3 Environmental Protection Regulations

The principal environment protection laws, as they relate to mining operations, pertain to the following areas:

- Environmental protection.
- Air pollution control.
- Water pollution control.
- Solid waste control.
- Ambient noise control.
- Water preservation.
- Soil and water conservation.

- Responsible production practices (compliance to standards).
- Environmental impact evaluation.

Environmental protection issues are addressed in detail in the No. 1 Mine PDR and the No. 2 Mine FSR, and the Nianpanliang No. 1 Mine Environmental Impact Assessment Report. Facilities, equipment, and capital for environmental protection are incorporated into the mine design and construction.

6.4 Environmental Management

According to the design reports, an environmental management office will be set up for the Nianpanliang Project, which is responsible for environmental planning, equipment management, environmental monitoring, and coordination among different sections of the mine regarding environmental protection aspects. This office will be overseen by the mine's operations manager. As of July 2009, the environmental management office had not been implemented; the plan for implementing the office was not provided.

6.5 Surface Subsidence

The principal method of coal extraction utilized throughout the Chinese coal industry, and at the Nianpanliang mines, is longwall mining, including sublevel caving in areas of the mine plan. Longwall mining will result in subsidence of the overlying surface land when the extent of coal seam extraction is sufficient to produce failure of the overlying strata extending to the surface. The strata failure often produces cracks and depressions on the overlying surface. For the Nianpanliang mines, owing to the large total planned extraction thickness, surface subsidence caused by mining activities is predicted to be as large as 10 m.

Generally, longwall mining is prohibited under major surface civil structures such as power transmission lines and highways, as well as water sources like streams, rivers, and lakes. Safety pillars or barriers are maintained beneath designated protected areas and structures. The mine is responsible for recovering the affected areas according to national regulations. In accordance with these regulations, plans have been developed to prevent surface subsidence in protected surface areas and minimize environmental impacts of underground full extraction mining practices, although the affected areas requiring remediation are expected to be minimal.

Damage caused by underground subsidence is compensated according to local government requirements. Since the surface cultural conditions vary among different mines, the compensation standard also varies.

6.6 Soil and Water Conservation

In accordance with the Soil and Water Conservation law, effective methods are planned to avoid, or to minimize, the loss of soil and water. Examples include constructing cinder dams in refuse disposal sites and retaining walls in steep slope areas; timely repair of surface cracks and depressions; and reclamation of disposal sites; etc.

6.7 Solid Waste Disposal

Solid wastes include waste rock, ash residue from boiler, and domestic living waste. Waste rock generated by mine construction at No. 1 Mine is projected to be 22,000 tonnes. Slag from the furnace is projected at 2,900 tonnes per year; solid waste from the mine surface complex is projected to be 414 tonnes per year. The No. 2 Mine should generate a similar level of waste as No. 1 Mine.

Waste rock from raw coal screening and hand picking operations will be temporarily stored in surface disposal areas with most of the waste rock used to fill the subsided areas. A portion of waste rock with sufficient heat content may be used for power generation. In addition, the region has successfully used waste rock for brick making and road construction. There are no provisions for permanent waste rock storage.

Ash residue is planned to be used for road pavement or construction material. Domestic waste will be collected and disposed at a planned location.

6.8 Water Resources Protection

Coal mines in many areas of China are recognized as sources of water for use in surface activities, both mining and non-mining related. Water management plans are in place to protect water resources during the mining process and to recycle ground water inflows into the mine workings after such water is collected, pumped to the surface, and processed.

Water generated from mining operations is generally recycled after filtering and treatment and is used to supply the underground emergency fire protection system, supply dust suppression sprays, and/or provide water for surface agricultural irrigation. The underground water treatment facility (40 m^3/hr capacity) is operating with a staff of eight personnel, two workers per shift, three shifts per day. Periodic water quality testing is performed.

Sewage from existing mines and associated communities is processed through cesspool systems until the effluent reaches the discharge requirements of the local environment authorities. The effluent is often used for nearby farm irrigation. The sewage treatment plant (40 m^3/hr capacity) construction was completed in July 2009, with operation to begin in August 2009.

6.9 Air Pollution Control

Boiler exhaust emissions and fugitive dust from coal processing, coal handling, and transportation activities are the primary sources of air pollution, with the following pollutant emission projections:

Source	Type	Amount Generated
Boilers	Smoke & Dust	18.0 tpa
Boilers	SO_2	68.8 tpa

Coal-burning boilers are planned to be fitted with multi-pipe dust filtering equipment for capturing and processing exhaust emissions. The filtering system reduces smoke discharges to meet the requirements of local environmental regulations.

Water sprays are installed at coal storage sites and the screening plant to reduce fugitive dust. Drivers are required to cover loaded truck beds to control dust and follow posted speed limits. Routine road washing and tree plantings along the access roads are also planned to minimize fugitive dust accumulation and dispersal. Underground spray installations include bunkers, belt conveyor transfer points, and LW faces (shearer and belt conveyor loading points). The industrial area has been paved or landscaped with vegetation. Access roads have also been paved.

6.10 Noise Abatement

According to the mine design documentation, the mines intend to adopt noise insulation and reduction practices for high-noise generation activities. Examples include reducing the vibration of the crusher and vibrating screens, soundproofing of the equipment rooms, installing noise reduction equipment on ventilation fans, etc. Mining equipment and facilities that generate high noise levels are sited away from the residential areas, to avoid disturbance to inhabitants, whenever practicable. Given the remote location of the mining operation, noise generation will not be an issue for the community.

6.11 Capital for Environmental Protection

Planned environmental protection expenditures for the No. 1 Mine are RMB5.63 million, with the following breakdown:

Item	**RMB** *(millions)*
Air Pollution Control Facilities	0.60
Water Disposal Facilities	1.50
Noise Control Engineering	0.28
Solid Waste Disposal	0.55
Conservation of Soil and Water	2.50
Environmental Monitoring	0.20
Total	5.63

The environmental protection capital expenditure for the No. 2 Mine is planned to be RMB4.82 million; the FSR did not provide a detailed breakdown of planned expenditures.

GLOSSARY AND DEFINITIONS

ad	Air dried, as in coal quality reporting.
AFC	Armored face conveyor.
Block	A defined area of coal bordered by gate roads, usually rectangular in configuration, in which the LW face operates.
BOYD	John T. Boyd Company.
BN Category	A designation within the Chinese coal classification system for coals with a volatile matter content between 20% and 28% and a caking index of 5 or less, also known as non-caking coal.
Cash (Production) Cost	All cash costs directly associated with coal production, including, but not limited to, raw materials consumed, salary and wages, labor benefits, power, repairs, coal processing transport of coal from mine to loading point, general administrative expense, and selling expenses.
CAPEX	Capital expenditure.
Coal Preparation Plant	Facility used to selectively remove an undesirable portion (waste) from the ROM/raw coal using chemical and mechanical methods. Also known as CPP.
Coal Reserve	The economically mineable part of a Measured or Indicated coal resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal reserves are subdivided in order of increasing confidence into Probable coal reserves and Proved coal reserves.

Coal Resource	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. The location, quantity, quality, geological characteristics, and continuity of a coal resource are known, estimated, or interpreted from specific geological evidence and knowledge. Coal resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated, and Measured categories.
Coal Seam	Portion of the strata that contains solid fossil fuel.
Commercial Output	Saleable product from a particular mine, which may include varying proportions of raw and cleaned coals.
Con-Mech	Conventionally mechanized, in reference to longwall face technology that uses simple or hydraulically linked, hydraulic props for primary roof support.
Contract Services Personnel	Personnel typically employed full-time by the mining company who are assigned to operating mines in order to perform specific routine tasks (e.g., LW face transfers).
CV	Calorific value, the measure of a coal's energy content.
CY Category	A designation within the Chinese coal classification system for coals with a volatile matter content greater than 37% and a caking index of less than 5, also known as Long Flame.
daf	Dry, ash free.
Dip	Angle that strata make with the horizontal.
Face	Mine location where active coal extraction is taking place, also refers to the longwall or development mining equipment as installed for mining.

Feasibility Study	Assesses in detail the technical soundness and Economic Viability of an undeveloped mining project, and serves as the basis for the investment decision and as a bankable document for project financing. The study constitutes an audit of all geological, engineering, environmental, legal, and economic information accumulated on the project. Generally, a separate environmental impact study is required.
Fm	Formation.
FM	Fully mechanized, in reference to longwall face equipment complement.
FOB	Free-on-board, a mercantile term meaning that the seller is responsible for delivering goods to a specified location.
FSR	Feasibility Study Report, the document produced as a result of a feasibility study as conducted by a Chinese design institute.
GAAP	Generally Accepted Accounting Principles.
Gate	Bord-and-pillar development around a longwall panel supporting its operation.
Gob	Spoil material allowed to subside behind the longwall retreat.
Hengtai	Eerduosi Hengtai Coal Company Limited.
hr	Hour.
Indicated Coal Resource	That part of a coal resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed.

Inferred Coal Resource	That part of a coal resource for which tonnage, quality, and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes, which may be limited or of uncertain quality and reliability.
ITR	Independent Technical Review.
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
Kcal/kg	Kilocalorie per kilogramme, measure of coal heat content.
km	Kilometer.
kW	Kilowatt.
kV	Kilovolt.
LOM	Life of mine.
LW	Longwall.
m	Meter.
m^2	Square meter.
m^3	Cubic meter.
m^3/min	Cubic meters per minute.
m/s	Meters per second.
Marketable Reserves	Saleable coal from Recoverable Reserves after accounting for preparation plant yield where applicable.

Measured Coal Resource	That part of a coal resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes.
Methane	A colorless, odorless, explosive gas (CH_4) typically associated with coal seams.
Mine Plan	A Mining Plan Report is understood as the current documentation of the state of development and exploitation of a deposit during its economic life, including current mining plans. It is generally made by the operator of the mine. The study takes into consideration the quantity and quality of the minerals extracted during the reporting time, changes in Economic Viability categories due to changes in prices and costs, development of relevant technology, newly imposed environmental or other regulations, and data on exploration conducted concurrently with mining.
MLR	Ministry of Land and Resources of PRC.
mm	Millimeter.
Mt	Million tonnes.
Mtpa	Million tonnes per annum.
Normal Fault	A fault where the hanging wall has dropped along the fault plane (fault angle between 45 and 90 degrees) relative to the footwall.
NRC	National Railway of China.
NPV	Net present value.
OSD	Out-of-seam dilution, i.e., roof and floor rock recovered with the coal seam during the normal mining process.
Outcrop	The part of the coal formation exposed to the surface.

Out-of-Seam	Non-coal waste material above and below the coal seam recovered during mining.
Overburden	Waste material overlying a coal seam.
P	Phosphorous, trace element in coal that may adversely affect coal boiler efficiency.
Panel	An area of coal designated for extraction utilizing longwall mining within which a series of blocks (longwall faces) are developed.
Partings	Rock material within mineable coal seams usually extracted with the coal.
PDR	Preliminary Design Report, a more comprehensive, detailed version of a Feasibility Study Report that is prepared by a Chinese design institute in order to verify the findings of the FSR and serve as a guideline for mine construction and development. The Preliminary Design study is undertaken after an FSR has been issued for the subject project. The PDR generally expands the FSR with additional mine planning analysis and includes detailed mine opening and construction plans from initial work to full production status.
Pillar	Column of coal left behind for support.
PRC	The People's Republic of China.
Prefeasibility Study	Provides a preliminary assessment of the Economic Viability of a deposit and forms the basis for justifying further investigations (detailed exploration and feasibility). It usually follows a successful exploration campaign and summarizes all geological, engineering, environmental, legal, and economic information accumulated to date.

Probable Coal Reserve	The economically mineable part of an Indicated, and in some circumstances Measured, coal resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Also referred to as Recoverable Probable Coal Reserve.
Productivity	Measurements of worker efficiency usually expressed in terms of tonnes per unit of time, e.g., tonnes per employee-year.
Proved Coal Reserve	The economically mineable part of a Measured coal resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Also referred to as Recoverable Proved Coal Reserve.
Railcar	Open-top cars (wagons) used to haul coal from mines to the customers.
Raw Coal	Coal on an as-mined basis, which may be sold directly or processed if necessary.
Recoverable Coal	Portion of coal reserve available for mining exclusive of coal losses due to mining.

Recoverable Reserves	Proved and Probable reserves prior to adjustment for preparation plant yield. Refers to that portion of the coal from a mineable coal seam that can be recovered with the mining techniques considered in the feasibility study. The portion of in-place seam tonnage recovered during the mining but before OSD and coal processing consideration.
Residual Stone	Low heat content material remaining after commercial coal has been produced from raw coal using crushing, screening, and processing methods. Heat content typically is sufficient for utilization in specially designed boilers for power generation.
RMB	Renminbi, Chinese currency.
ROM	Run-of-mine, the as-mined material as it leaves the mine site, including coal, in-seam rock partings mined with the coal, and OSD (out-of-seam rock contamination).
SEHK	The Stock Exchange of Hong Kong.
Shanxi Puhua	Shanxi Puhua Deqin Metallurgy & Technology Co., Ltd.
Shearer	Mechanized cutting machine utilized to extract coal from a face in a longwall mine.
SurvCADD	Geologic modeling software published by Carlson Software.
Team 117	Exploration Team 117, Inner Mongolia Autonomous Region, Coalfield Geology Bureau.
Temporary Personnel	Workers employed on a temporary basis at a mining operation to perform specific construction or maintenance tasks. These workers are not reflected in mine employment figures.
Tonne	Metric ton equal to 1,000 kilogrammes.
tph	Tonnes per hour.
UG	Underground.

VAT	Value added tax, an ad valorem tax applied to coal sales and operating materials and supply purchases in the PRC.
VM	Volatile matter, expressed in percent. Refers to components of coal, excluding moisture liberated at high temperatures.
Wash Plant	Facility used to selectively remove an undesirable portion (waste) from the ROM/Raw coal using chemical or mechanical methods. Also known as a Coal Preparation Plant (CPP).
Yield	Saleable portion of coal cleaned in a preparation plant relative to the total tonnes cleaned.
Yun Sky	Yun Sky Chemical (International) Holdings Limited.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually 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 and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

2. CORPORATE INFORMATION OF THE COMPANY

The Company was incorporated in Hong Kong with limited liability under the laws of Hong Kong. Its registered office and principal place of business in Hong Kong is at Room 1211, 12/F., Tower 1, New World Tower, 18 Queen's Road Central, Hong Kong.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the authorised and issued share capital of the Company, together with changes in connection with the proposed Acquisition as mentioned in this circular, are as follows:–

Authorised share capital

Shares		*HK$*
300,000,000,000	(as at the Latest Practicable Date)	3,000,000,000

Issued and fully paid up

Shares		*HK$*
3,209,743,370	(as at the Latest Practicable Date)	32,097,434
29,680,000,000	(Conversion Shares to be issued upon full conversion of the Convertible Notes at the initial conversion price of HK$0.0625 per Share)	296,800,000
32,889,743,370		328,897,434

(a) Directors' Interests

(i) Directors' interests and short positions in the securities of the Company and its associated corporations

None of the Directors or the chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions 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 were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(ii) Competing interest

The Group is principally engaged in the trading of phosphorus products and optical products.

As at the Latest Practicable Date, interest of the Directors in businesses which are likely to compete, either directly or indirectly with the phosphorus business were as follows:

Entity whose business(es) may compete or are likely to compete with the business of the Group (the "Entity")	Description of businesses of the Entity	Name of Director	Nature of interest of the Director in the Entity
雲南尋甸意甸磷化工有限公司 (Yunnan Xundian Italphos YP Co., Ltd.*)	Principally engaged in the production of yellow phosphorus	Ms. Zhou Jing	Director

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates had any interests which competes or was likely to compete, either directly or indirectly, with the Group's business.

(iii) Service contracts

As at the Latest Practicable Date, no Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

* *for identification purposes only*

(iv) Directors' interests in assets

None of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2008, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group.

(v) Directors' interests in contracts

There was no contract of significance in relation to the Enlarged Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisting as at the Latest Practicable Date.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares or/and 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, 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 Group were as follows:

(i) Interests in the Shares

Name	**Number of Shares held**	**Approximate percentage of issued share capital as at the Latest Practicable Date**
Chan Yuen Ming ("Mr. Chan")	1,647,746,948 *(note 1)*	51.33
Sinogreat Limited	1,629,464,158 *(note 1)*	50.76
Gouw Hiap Kian ("Mr. Gouw")	192,460,000 *(note 2)*	5.99
Ng Choi Yue Mary	192,460,000 *(note 2)*	5.99

Notes:

1. Mr. Chan is the sole shareholder of Sinogreat Limited which held 1,629,464,158 shares. Probest Holdings Inc., a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Tomorrow International Holdings Limited, shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited and is controlled by Mr. Chan, held 18,282,790 shares.

2. Champion Centre Limited and Goldig Investment Group Limited held 100,060,000 shares and 58,920,000 shares respectively are the wholly own subsidiary of Chung Chiu (PTC) Limited, which in turn is wholly owned by a discretionary trust. Mr. Gouw, held 33,480,000 shares, is the founder of the discretionary trust, and the trustee of the discretionary trust is HSBC International Trustee Limited. Ng Choi Yue Mary, the spouse of Mr. Gouw, is deemed to be interested in Mr. Gouw's interest in the shares.

(ii) Substantial shareholders of other members of the Group

As at the Latest Practicable Date, so far as it is known to the directors of the Company, there are no parties who is 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 in general meetings of any other member of the Group.

4. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors or experts named in the section headed "Experts and consents" in this Appendix had any direct or indirect interest in the assets which had been, since 31 December 2008, the date to which the latest published audited consolidated financial statements of the Company have been made up, acquired or disposed of by or leased to any member of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the audited consolidated financial statements of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the audited consolidated financial statements of the Company have been made up).

There was no contract or arrangement subsisting as at the Latest Practicable Date in which a Director was materially interested and which was significant in relation to the business of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the audited consolidated financial statements of the Company have been made up).

5. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation, claim or arbitration of material importance and there was no litigation, claim or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Group. None of the members of the Enlarged Group has held any exploration right or engaged in any exploration activities, and there are no claims in relation to exploration rights made or notified either by third parties against the Company or vice versa.

6. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Ernst & Young	Certified public accountants
B.I. Appraisal Limited	Registered professional surveyor, Registered business valuer, China real estate appraiser
John T. Boyd Company	Independent technical adviser

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report (as the case may be) and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts was beneficially interested in the share capital of any member of the Enlarged Group, nor did any one of them have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the latest published audited consolidated financial statements of the Company have been made up).

7. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business of the Enlarged Group) have been entered into by the members of the Enlarged Group within two years immediately preceding the date of this circular, and are or may be material:

(a) the PVC leasing termination agreement entered into between Fangcheng Huahai Chemicals Co., Ltd. and Yunnan Phosphorus Group Co., Ltd. on 11 September 2008, pursuant to which parties have agreed to terminate the PVC leasing agreement mentioned above;

(b) the conditional subscription agreement entered into on 8 January 2009 between the Company and Mr. Gouw Hiap Kian in relation to the subscription for, and allotment of, the aggregate of 84,880,636 new Shares at a consideration of HK$8,000,000;

(c) the conditional sale and purchase agreement dated 2 March 2009 entered into between Anchorage Trading Limited and Allied Concept Investment Limited in relation to the disposal of the entire registered capital of Fangcheng Huahai Chemical Co., Ltd. at a consideration of RMB26,000,000;

(d) the acquisition agreement executed between Shanxi Puhua and Baotou Hengtong (Group) Company Limited dated 21 July 2008 pursuant to which Shanxi Puhua has purchased 25% equity interest in Hengtai from Baotou Hentong (Group) Company Limited at a consideration of RMB45,000,000;

(e) the acquisition agreement executed between Eerduosi Dongsheng District Puhua Deqin Trading Company Limited and Baotou Hengtong (Group) Company Limited dated 21 July 2008 pursuant to which Eercluosi Dongsheng District Puhua Deqin Trading Company Limited has purchased 5% equity interest in Hengtai from Baotou Hentong (Group) Company Limited at a consideration of RMB9,000,000;

(f) the acquisition agreement executed between Shanxi Puhua and Mr. Zhang Hongliang dated 21 July 2008 pursuant to which Shanxi Puhua has purchased 70% equity interest in Hengtai from Mr. Zhang Hongliang at a consideration of RMB126,000,000;

(g) the equity transfer agreement entered into among Shanxi Hengchuang, Mr. Xue Zhendong and Mr. Zhang Wei on 30 May 2008, pursuant to which Shanxi Hengchuang agrees to purchase 89% equity interest in Shanxi Puhua from Mr. Xue Zhendong and 10% equity interest from Mr. Zhang Wei at a consideration of RMB26,133,000 together with an undertaking by Shanxi Hengchuang to inject more capital to Shanxi Puhu or provide additional funds by other means to procure Shanxi Puhua's repayment of its debts in the total amount of RMB113,867,000;

(h) an equity transfer agreement in respect of 89% equity interest in Shanxi Puhua entered into between Shanxi Hengchuang (as transferee) and Mr. Xue Zhendong (as transferor) on 23 September 2009; and an equity transfer agreement in respect of 10% equity interest in Shanxi Puhua entered into between Shanxi Hengchuang (as transferee) and Mr. Zhang Wei (as transferor) on 23 September 2009 at a total consideration of RMB148,500,000, superceding the agreement referred to in item (g);

(i) the equity pledge agreement entered into between Shanxi Puhua and Shenzhen Branch of China Minsheng Banking Corp. Ltd. dated 7 November 2008 pursuant to which 95% equity interest of Hengtai held by Shanxi Puhua has been pledged to Shenzhen Branch of China Minsheng Banking Corp. Ltd. for the purpose of guaranteeing the loan agreement entered into between Hengtai and Shenzhen Branch of China Minsheng Banking Corp. Ltd. for the loan term of RMB500 million;

(j) the Sale and Purchase Agreement; and

(k) a letter dated 28 September 2009 given by Baotou Hengtong (Group) Company Limited and Mr. Zhang Hongliang confirming that the total consideration for the transfer of the 95% equity interest in Hengtai to Shanxi Puhua and the 5% equity interest in Hengtai to Eerduosi Dongsheng District Puhua Deqin Trading Company Limited was RMB700 million.

8. GENERAL

The registered office and principal place of business of the Company is Room 1211, 12th Floor, Tower 1, New World Tower, 18 Queen's Road Central, Hong Kong.

The company secretary and the qualified accountant of the Company is Miss Law Pik Kam Peggy, who is a member of the Hong Kong Institute of Certified Public Accountants.

The share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 1211, 12/F, Tower 1, New World Tower, 18 Queen's Road Central, Hong Kong during normal business hours (i.e. from 9:30 a.m. to 5:00 p.m. on Monday to Friday except public holidays) up to and including at least 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for each of the year ended 31 December 2007 and 2008 respectively;

(c) the interim report of the Company for the six months ended 30 June 2009;

(d) the accountants' reports from Ernst & Young on the Target Group, the text of which is set out in Appendix II to this circular;

(e) the comfort letter on the unaudited pro forma financial information from Ernst & Young on the Enlarged Group, the text of which are as set out in Appendix III to this circular;

(f) the valuation report on the Coal Mines prepared by B.I. Appraisal Limited, the text of which is set out in Appendix V to this circular;

(g) the technical report from BOYD on the Nianpanliang Project, the text of which is set out in Appendix VI to this circular;

(h) the letters of consent referred to under the section headed "Experts and consents" in this Appendix;

(i) the material contracts referred to under the paragraph headed "Material contracts" in this Appendix; and

(j) the circular of the Company dated 25 March 2009 and this circular.

10. MISCELLANEOUS

In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

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

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Yun Sky Chemical (International) Holdings Limited (the "Company") will be held at Room 1211, 12/F., New World Tower 1, No. 18 Queen's Road Central, Hong Kong on 7 December 2009 at 12:00 noon for the purpose of considering and, if thought fit, passing with or without modifications the following resolution as ordinary resolution of the Company:–

ORDINARY RESOLUTION

"**THAT**,

(a) subject to and conditional upon the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in the Conversion Shares (as defined below) and not having withdrawn or revoked such listing and permission, the sale and purchase agreement dated 15 September 2009 (the "**Agreement**") (a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked "A") entered into between Magic Field International Limited ("**Purchaser**"), a wholly-owned subsidiary of the Company, as purchaser, Mr Zhao Ming ("**Vendor**") as vendor and the Company as guarantor of the Purchaser, the terms and conditions thereof and the transactions contemplated thereunder, including:

(i) the issue of the convertible notes with aggregate principal value of HK$1,855,000,000 (the "**CB**") by the Company to the Vendor;

(ii) the allotment and issue of new ordinary share(s) of HK$0.01 each in the issued share capital of the Company (the "**Share(s)**") upon the exercise of the conversion rights attaching to the CB (the "**Conversion Shares**") at the initial conversion price of HK$0.0625 per Share (subject to adjustment); and

(iii) all other transactions contemplated under the Agreement and the execution of the Agreement

be and are hereby approved, confirmed and ratified; and

(b) the board of directors of the Company (the "**Board**") be and is hereby authorised to do all such acts and things and sign all such documents and to take such steps as it consider necessary or expedient or desirable in connection with or to give effect to and to implement the Agreement and the transactions contemplated thereunder including the issue of the CB and the Conversion Shares and to agree to such variation, amendment or waiver (including waiver or termination of the Put Option (as defined in the circular of the Company dated 18 November 2009)) as are, in the opinion of the Board, in the interest of the Company."

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

Hong Kong, 18 November 2009

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

Registered Office and Principal Place of Business:

Room 1211, 12th Floor
Tower 1, New World Tower
18 Queen's Road Central
Hong Kong

Notes:

(1) A shareholder entitled to attend and vote at the meeting may appoint another person as his proxy to attend and to vote instead of him. A proxy need not be a shareholder of the Company.

(2) In the case of joint holders of any share, any one of such persons may vote at the said meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders is present at the said meeting, personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

(3) In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person should they so wish.