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

If you have sold or transferred all your shares in Century Sunshine Group Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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世纪阳光

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

世紀陽光集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

**(1) MAJOR TRANSACTION
– ACQUISITION OF THE ENTIRE INTERESTS IN
GOLD STRATEGY INVESTMENTS LIMITED
(2) RE-ELECTION OF DIRECTOR**

Joint financial advisers to the Company



博大資本國際有限公司

Partners Capital International Limited

A notice convening an extraordinary general meeting of the Company ("EGM") to be held at Unit 3907, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong on Thursday, 14 October 2010 at 2:30 p.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you intend to attend the EGM of the Company, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than forty-eight hours before the time appointed for holding the meeting of the Company. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM of the Company or any adjournment of it, if you so wish.

25 September 2010

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

“Acquisition”	the acquisition of the Sale Interests and the assignment of the Sale Loans
“Adjacent Land”	certain area of land adjacent to the Serpentine Mine which provides sufficient area for exploitation of the Serpentine Mine (including any extension of the boundaries thereof for the purpose of or incidental to any exploitation pursuant to the further increase the production scale to 2.0Mt per year and to extend the term of exploitation to 30 years from the date of the new mining licence to the satisfaction of the Buyer)
“Adjustments”	the adjustments which the Consideration may be subjected to as summarised in the paragraph headed “Potential adjustments to the Consideration” under the section headed “The Agreement” in the letter from the Board to this circular
“Agreement”	the sale and purchase agreement dated 10 September 2010 entered into among the Buyer, the Seller, the Guarantor and the Company in respect of the Acquisition
“Announcement”	the announcement of the Company dated 12 September 2010 in relation to the Acquisition
“associate”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors, including non-executive Directors and independent non-executive Directors
“Business Day(s)”	a day (other than any Saturday, Sunday or public holiday in Hong Kong) on which banks are generally open for business in Hong Kong
“Buyer”	Bright Stone Group Limited, a company incorporated in BVI with limited liability which is a wholly owned subsidiary of the Company
“BVI”	British Virgin Islands

DEFINITIONS

“Company”	Century Sunshine Group Holdings Limited (Stock code: 00509), whose Shares are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Acquisition
“Completion Accounts”	the audited consolidated financial statements of the Target Group as at the date of the last date of the calendar month on which Completion takes place and for the period commencing from 1 January 2010 to the last date of the calendar month on which Completion takes place, which are to be prepared in accordance with HKFRS
“Completion Consolidated NAV”	the total consolidated tangible asset value of Gold Strategy (but excluding the Serpentine Mine and the related mining rights and interests) less the total consolidated liabilities of Gold Strategy, after deducting minority interest, as shown in the Completion Accounts save that the provision of up to approximately RMB47.2 million (equivalent to approximately HK\$54.3 million) in relation to the Non-compliance and the Sale Loans shall not be regarded as liabilities for this purpose
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Consideration”	the consideration for the acquisition of the Sale Interests and the assignment of the Sale Loans, being HK\$367,000,000, subject to the Adjustments
“Consideration Share(s)”	the 100,000,000 consideration shares to be issued by the Company at HK\$0.25 each for partial settlement of the Consideration
“Deposit”	the deposit of HK\$55,000,000 paid by the Buyer to the Seller
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held for approving, amongst other things, the Agreement and the transactions contemplated thereunder and the re-election of Mr. Sheng Hong as independent non-executive Director, notice of which is set out on pages EGM-1 to EGM-2 of this circular

DEFINITIONS

“Enlarged Group”	the Group as enlarged by the Acquisition after Completion
“Fly Union”	Fly Union Limited, a company incorporated in Hong Kong with limited liability
“Gold Strategy”	Gold Strategy Investments Limited, a company incorporated under the law of the BVI which is wholly, legally and beneficially owned by the Seller, and owns 100% equity interest in Fly Union
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Zhang Jun, an Independent Third Party, holds the entire equity interest of the Seller, being the guarantor to the Seller pursuant to the MOU and the Agreement
“HKFRSs”	Hong Kong Financial Reporting Standards
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	a party which is independent of the Company and its connected persons
“Issue Price”	the issue price of the Consideration Shares of HK\$0.25 each
“Jiangsu Longteng”	江蘇龍騰化工有限公司 (Jiangsu Longteng Petrochemical Company Limited), a sino-foreign joint venture company established in the PRC, of which approximately 91.3% equity interest is owned by Fly Union
“JORC”	the Joint Ore Reserves Committee
“JORC Code”	the Australian Code of Reporting of Mineral Resources and Ore Reserves prepared in 2004 by the JORC
“Land”	the land situated at 中國東海縣山左口鄉許溝 with an area of approximately 507,562.2m ² , the land use right of which is held by Jiangsu Longteng
“Last Trading Day”	10 September 2010, being the last trading day of Shares prior to the date of the Announcement

DEFINITIONS

“Latest Practicable Date”	22 September 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in the circular
“Lianyungang Logistics”	連雲港龍游物流有限公司, a wholly-owned subsidiary of Jiangsu Longteng which was established in the PRC
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange responsible for the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longteng Group”	Jiangsu Longteng and its subsidiaries
“Long Stop Date”	28 February 2011 (or any other date as may be agreed in writing between the Buyer and the Seller)
“Minarco”	Minarco-MineConsult, an independent technical consultant providing resource evaluation, mining engineering and mine valuation services
“Mine Interests”	the mining licence in respect of the Serpentine Mine and the rights and interests thereunder, the interests in the land and buildings, and other rights, interests and assets relating to the Serpentine Mine
“Mineral Resource”	resources which have been estimated in accordance with the recommendations of the JORC Code
“MOU”	the memorandum of understanding dated 19 December 2008 (as supplemented by a supplemental agreement dated 23 December 2009) entered into among the Buyer, the Seller and the Guarantor in relation to the possible acquisition of the Sale Interests
“No Claim Confirmation”	the written confirmation to be issued by the relevant PRC government authorities to Jiangsu Longteng confirming that they will not invoke or impose any claim or penalties against Jiangsu Longteng in respect of the Non-compliance in such form to the reasonable satisfaction of the Buyer

DEFINITIONS

“Non-compliance”	the over production of Jiangsu Longteng which exceed the permitted production scale of 0.3Mt per annum since 2007
“Ore Reserves”	reserves which have been estimated in accordance with the recommendations of the JORC Code
“PRC”	People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan)
“Probable Ore Reserve”	is the economically mineable part of a JORC compliant Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and 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. A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but has adequate reliability as the basis of mining studies.
“Sale Interests”	the entire equity interest in Gold Strategy
“Sale Loans”	the total outstanding amount owing to the Guarantor by Fly Union and to the Seller by Gold Strategy at Completion
“Seller”	Rising Dragon Management Limited, the legal and beneficial owner of the entire issued share capital of Gold Strategy, being an Independent Third Party
“Serpentine Mine”	a natural serpentine mine with an estimated total land area of approximately 0.4972km ² located in the Donghai County of Jiangsu Province, the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	ordinary share(s) of HK\$0.02 each in the issued share capital of the Company

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Group”	Gold Strategy and its subsidiaries from time to time
“Technical Report”	the independent technical review report on the Serpentine Mine prepared by Minarco as set out in Appendix IV to this circular
“Valuation Report”	the independent valuation report of the Serpentine Mine prepared by the Valuer as set out in Appendix V to this circular
“Valuer”	Greater China Appraisal Limited, an independent professional valuer
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“km”	kilometer
“km ² ”	square kilometer
“m”	meter
“Mt”	million tonnes
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America

For the purpose of this circular, all amounts in RMB are translated into HK\$ at an exchange rate of HK\$1.00 = RMB0.87.

LETTER FROM THE BOARD



世紀陽光

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

世紀陽光集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

Executive Directors:

Mr. Chi Wen Fu (*Chairman*)

Mr. Shum Sai Chit

Ms. Chi Bi Fen

Independent non-executive Directors:

Mr. Kwong Ping Man

Mr. Liu Hoi Keung

Mr. Sheng Hong

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

Head office and

principal place of business:

Unit 3907, 39/F

COSCO Tower

183 Queen's Road Central

Hong Kong

25 September 2010

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR TRANSACTION
– ACQUISITION OF THE ENTIRE INTERESTS IN
GOLD STRATEGY INVESTMENTS LIMITED
(2) RE-ELECTION OF DIRECTOR**

INTRODUCTION

After trading hours on 10 September 2010, the Buyer, which is a wholly-owned subsidiary of the Company, entered into the Agreement with the Seller, the Guarantor and the Company, pursuant to which the Buyer conditionally agreed to acquire and the Seller conditionally agreed to sell and/or procure the transfer of the Sale Interests, being the entire equity interest in Gold Strategy, and the assignment of the Sale Loans at an aggregate consideration of HK\$367,000,000, subject to the Adjustments.

The Acquisition constitutes a major acquisition for the Company under Chapter 14 of the Listing Rules. Accordingly, the Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

LETTER FROM THE BOARD

Besides, pursuant to the articles of association of the Company, Mr. Sheng Hong, being the independent non-executive Director, shall retire at the EGM and, being eligible, would offer himself for re-election at the EGM.

The purpose of this circular is to provide you with, amongst other things, (i) further details of the Acquisition; (ii) the accountants' reports on the Target Group; (iii) the Technical Report; (iv) the Valuation Report and (v) details of the Director proposed to be re-elected at the EGM, together with a notice convening the EGM and other disclosures applicable under the Listing Rules.

THE AGREEMENT

Date

10 September 2010

Parties

Buyer:	Bright Stone Group Limited, a wholly-owned subsidiary of the Company
Seller:	Rising Dragon Management Limited, an investment holding company incorporated in BVI and is wholly and beneficially owned by the Guarantor. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Seller and its sole director and ultimate beneficial owner are Independent Third Parties
Guarantor:	Mr. Zhang Jun, an Independent Third Party who holds the entire equity interest of the Seller, who guarantees the performance of the Seller under the Agreement
Issuer:	The Company

Assets to be acquired

Pursuant to the Agreement, the Buyer has conditionally agreed to acquire and the Seller has conditionally agreed to dispose of and/or procure the transfer of the Sale Interests (being the entire equity interest in Gold Strategy) and the assignment of the Sale Loans to the Buyer.

LETTER FROM THE BOARD

Consideration

Pursuant to the Agreement, the aggregate amount of the Consideration for the Acquisition is HK\$367,000,000, subject to the Adjustments. The earnest money of HK\$55,000,000, which was paid to the Seller at the signing of the MOU, shall be automatically treated as the Deposit paid under the Agreement. The Deposit shall become part of the Consideration immediately upon Completion and the balance of approximately HK\$312,000,000 will be satisfied as to:

- (i) HK\$155,000,000 by way of cash upon Completion subject to adjustments to the consideration on dollar-to-dollar basis upon the issuance of the Valuation Report issued by the Valuer in form and substance acceptable to the Company confirming the valuation on the Serpentine Mine as at 31 August 2010 if the value of the mineral rights of the Serpentine Mine attributable to the Sale Interests is less than HK\$367,000,000 provided that such adjustment shall be subject to a cap of HK\$42,000,000;
- (ii) HK\$25,000,000 by way of issuance of the Consideration Shares upon Completion;
- (iii) HK\$77,000,000 by way of cash within 5 Business Days after the delivery of the Completion Accounts (the “Second Payment”); and
- (iv) the balance of HK\$55,000,000 by way of cash within 5 Business Days after the delivery of the No Claim Confirmation to the Buyer if the Seller can provide the No Claim Confirmation within six months after Completion (the “Final Payment”).

The Company is proposing that the cash portion of the Consideration be funded by internal resources of the Company.

The Consideration was determined at after arm’s length negotiation with reference to the preliminary valuation (the “Preliminary Valuation”) of the 100% interest of the mineral rights of the Serpentine Mine as at 31 August 2010 prepared by the Valuer based on information as set out in the latest draft Technical Report as at the date of the Agreement. The Preliminary Valuation was approximately RMB354 million based on the income approach valuation methodology.

The Consideration represents a discount of approximately 1.2% to the value of the Serpentine Mine as appraised by the Valuer of approximately RMB354 million as at 31 August 2010 (equivalent to approximately HK\$406.9 million) attributable to Gold Strategy of approximately RMB323.2 million (equivalent to approximately HK\$371.5 million).

LETTER FROM THE BOARD

Potential adjustments to the Consideration

1. *Valuation of the Serpentine Mine*

Pursuant to the terms of the Agreement, the final Consideration for the Acquisition will be subject to adjustments on dollar-to-dollar basis upon the issuance of the Valuation Report issued by the Valuer appointed by the Company in form and substance acceptable to the Company confirming that the valuation on the Serpentine Mine as at 31 August 2010 if the value of the mineral rights of the Serpentine Mine attributable to the Sale Interests is less than HK\$367,000,000, provided that such adjustment shall be subject to a cap of HK\$42,000,000. No adjustment is required in this regard pursuant to the final valuation as per the Valuation Report in Appendix V to this Circular.

2. *Completion Consolidated NAV*

Based on the accountants' report of the Target Group as set out in Appendix II to this circular, as at 31 March 2010, the Target Group recorded a net liability position of approximately RMB26.7 million which was mainly due to a provision of approximately RMB47.2 million (equivalent to approximately HK\$54.3 million) in relation to the Non-compliance. As soon as possible after Completion, the Seller and the Buyer will make arrangements with the auditors to prepare the Completion Accounts by no later than the date which is three months after Completion. Based on the Completion Accounts, the auditors of the Company shall prepare a statement (the "Auditors' Certificate") certifying the Completion Consolidated NAV by no later than the date which is three months after Completion (or such other dates which the Seller and the Buyer may agree in writing).

If the Completion Consolidated NAV as shown in the Auditor's Certificate is a negative figure (the "Negative Consolidated NAV"), the amount of the Consideration payable by Buyer shall be adjusted by deducting therefrom a sum equivalent to the amount of such Negative Consolidated NAV. Such adjustment shall be made by deducting firstly from the balance of the cash consideration payable by the Buyer to the Seller under the Second Payment and if insufficient, the balance of the amount shall be paid by the Seller to the Buyer in cash within 7 days after issue of the Auditor's Certificate.

3. *Non-compliance*

The existing mining licence of Jiangsu Longteng stipulates an annual production capacity of 0.3Mt and Jiangsu Longteng is currently in the process of applying for a new mining licence to increase the annual production capacity to 0.6Mt.

During the due diligence work carried out by the Company, the Company noted that there was Non-compliance in respect of the over production of Jiangsu Longteng which exceed the permitted production scale of 0.3Mt per annum since 2007 and the potential maximum penalty in relation to the Non-compliance of approximately RMB47.2 million (equivalent to approximately HK\$54.3 million) has been provided in the audited accounts of the Target Group and the Longteng Group as at 31 March 2010.

Pursuant to the terms of the Agreement, the Final Payment of the Consideration of HK\$55,000,000 will be retained until the Seller is able to procure the relevant PRC government authorities to issue the No Claim Confirmation on or before six months after Completion, otherwise, the Buyer shall deduct the same amount from the Consideration.

LETTER FROM THE BOARD

The Consideration Shares

The Company will allot and issue an aggregate of 100,000,000 Consideration Shares at the Issue Price of HK\$0.25 per Consideration Share under the general mandate of the Company obtained at the last annual general meeting held on 17 May 2010. The Consideration Shares shall rank equally among themselves and pari passu in all respects with the Shares in issue on the date of allotment and issue of such Consideration Shares. The Consideration Shares represent approximately:

- (i) 4.44% of the existing issued share capital of the Company; and
- (ii) 4.25% of the issued share capital of the Company as enlarged by the issuance of the Consideration Shares.

The Issue Price

The Issue Price of HK\$0.25 were determined after arm's length negotiations between the Buyer and the Seller, which represents:

- (i) a discount of approximately 13.8% to the closing price of the Share as quoted on the Stock Exchange on the Last Trading Day of HK\$0.290;
- (ii) a discount of approximately 9.7% to the average of the closing prices of the Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.277;
- (iii) a discount of approximately 9.1% to the average of the closing prices of the Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day of approximately HK\$0.275;
- (iv) a discount of approximately 18.0% to the closing price of the Share as quoted on the Stock Exchange as at the Latest Practicable Date of HK\$0.305; and
- (v) a discount of approximately 47.9% to the unaudited consolidated net assets value attributable to equity holders of the Company per Share of approximately HK\$0.48 as at 30 June 2010 (as calculated by the equity attributable to equity holders of the Company of approximately RMB932.1 million (equivalent to approximately HK\$1,071.4 million) as at 30 June 2010 and the number of outstanding Shares of 2,253,070,000 as at the Latest Practicable Date).

Given that the issuance of the Consideration Shares would allow the Company to satisfy part of the Consideration without creating a burden to the working capital of the Group, the Directors consider that the bases of the Consideration, including the Issue Price, are fair and reasonable.

LETTER FROM THE BOARD

Lock up

The Seller irrevocably and unconditionally undertakes to the Buyer and the Company, subject to Completion that without the prior written consent of the Buyer and the Company, it will not dispose of any of the Consideration Shares or create or permit to subsist any mortgage, charge, pledge, lien, encumbrance or other security interest whatsoever on or over or in respect of all or any of the Consideration Shares or otherwise purport to deal with the beneficial or economic interest therein (including but not limited to its voting rights) or any right relating thereto or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Consideration Shares at any time during the period from and including the date of Completion up to but excluding the date falling one year after Completion.

Application for listing

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares to be allotted and issued pursuant to the Agreement.

Conditions precedent

Completion is conditional upon:

- (i) the Buyer being satisfied with and confirmed by a PRC legal opinion that
 - (a) the Target Group has legal title and rights to the Land and the Mine Interests;
 - (b) Jiangsu Longteng can obtain the land use right of the Adjacent Land if it complies with all applicable PRC legal requirements;
 - (c) the mining right of Jiangsu Longteng under the mining licence for the Serpentine Mine has been modified with the production scale increased from 0.3Mt per annum to 0.6Mt per annum;
 - (d) Jiangsu Longteng has made an application to the relevant PRC authorities for further mining right in respect of the Serpentine Mine with the production scale increased to 2.0Mt per year and the term of exploitation extended to 30 years from the date of issue of the new mining licence and submitted all necessary documents and information for such application and the relevant PRC authorities have issued a notice of acceptance of application (受理函) for such application;
 - (e) the geological environmental protection and restoration proposal (礦山地質環境保護與治理恢復方案) in respect of the Serpentine Mine prepared by Jiangsu Longteng has been approved by the relevant administrative department of state land and resources; and

LETTER FROM THE BOARD

- (f) Jiangsu Longteng has submitted the environmental impact report (環境影響報告書) for the construction project in relation to its production (including the changes arising from the increase of the production scale of the Serpentine Mine to 0.6Mt per annum) to the competent environmental protection authorities for examination and approval, the inspection and acceptance of its completed construction work (竣工驗收) by the competent environmental protection authorities have been completed and all relevant approvals from the competent environmental protection authorities for such construction project have been obtained;
- (ii) the Buyer being satisfied with and confirmed by the opinion of a technical consultant that there is a minimum reserve of 55.0Mt of exploitable serpentine in the Serpentine Mine;
- (iii) the Buyer being satisfied with the results of the due diligence review to be conducted in relation to the transactions contemplated thereunder;
- (iv) the Buyer being satisfied with legal opinions in relation to the Seller and the Target Group, in forms satisfactory to the Buyer, confirming, among others, the capacity and authority of the Seller in entering into and performing the Agreement, the due execution by the Seller and validity of the Agreement, the due incorporation and valid existence of each member of the Target Group;
- (v) the passing by the Shareholders of ordinary resolution(s) approving the Agreement and the transactions contemplated thereunder, including the acquisition of the Sale Interests, and the issue and allotment of the Consideration Shares;
- (vi) the Company having obtained the approval granted by the Listing Committee for the listing of, and permission to deal in, the Consideration Shares; and
- (vii) all other necessary approvals or consents (if any) of the relevant governmental or regulatory authorities for the transactions contemplated in the Agreement having been obtained.

The Buyer may waive all or any of the conditions of (i), (ii), (iii) and (iv) above at any time by notice in writing to the Seller, whether without conditions or with such conditions as may be agreed by the Seller and the Buyer. If any of the conditions set out above are not fulfilled or waived by the Long Stop Date, the Agreement and everything therein contained shall, subject to the liability of either party to the other in respect of any breaches of the terms thereof antecedent thereto (including obligations thereunder), be null and void and of no effect, and the Deposit and all other monies (if any) paid by the Buyer to the Seller shall be refunded to the Buyer or its nominee within five Business Days after the Long Stop Date. The refund of the Deposit and other monies paid by the Buyer is secured by two share mortgages over, among others, all issued shares of Gold Strategy and Fly Union respectively.

LETTER FROM THE BOARD

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

Completion

Completion shall take place within ten Business Days after each of the conditions set out above has been fulfilled or waived or such other date as shall be agreed between the Buyer and the Seller.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date, set out below is a table illustrating the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon Completion and the allotment and issue of the Consideration Shares (but before taking into account the issue of the consideration shares by the Company for the purpose of acquisition of Sunshine Partners Financial Holdings Limited as disclosed in the announcement of the Company dated 18 June 2010):

Name of Shareholders	As at the Latest Practicable Date		Immediately upon Completion and the allotment and issue of the Consideration Shares	
	Number of Shares	%	Number of Shares	%
Chi Wen Fu and Alpha Sino International Limited (<i>Note 1</i>)	981,639,850	43.57	981,639,850	41.72
Chi Bi Fen (<i>Note 2</i>)	7,500,000	0.33	7,500,000	0.32
Liu Hoi Keung (<i>Note 3</i>)	1,000,000	0.04	1,000,000	0.04
The Seller	–	n/a	100,000,000	4.25
Public Shareholders	1,262,930,150	56.06	1,262,930,150	53.67
Total	<u>2,253,070,000</u>	<u>100.00</u>	<u>2,353,070,000</u>	<u>100.00</u>

Notes:

1. Mr. Chi Wen Fu is a brother of Ms. Chi Bi Fen and is an executive Director. Of these 981,639,850 Shares, 63,155,000 Shares were beneficially owned by Mr. Chi Wen Fu and registered in his name and 918,484,850 Shares were held by Alpha Sino International Limited and are deemed corporate interests of Mr. Chi Wen Fu by virtue of his holding of 83.74% of the issued share capital of Alpha Sino International Limited.
2. Ms. Chi Bi Fen is a sister of Mr. Chi Wen Fu and is an executive Director
3. Mr. Liu Hoi Keung is an independent non-executive Director

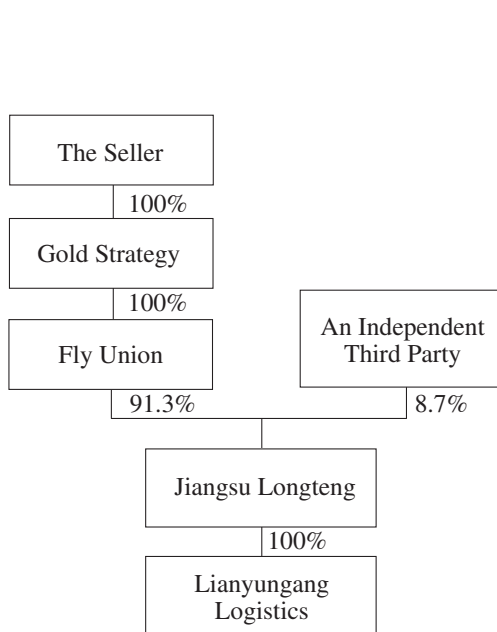
As shown from the above table, the Acquisition will not result in a change of control of the Company.

LETTER FROM THE BOARD

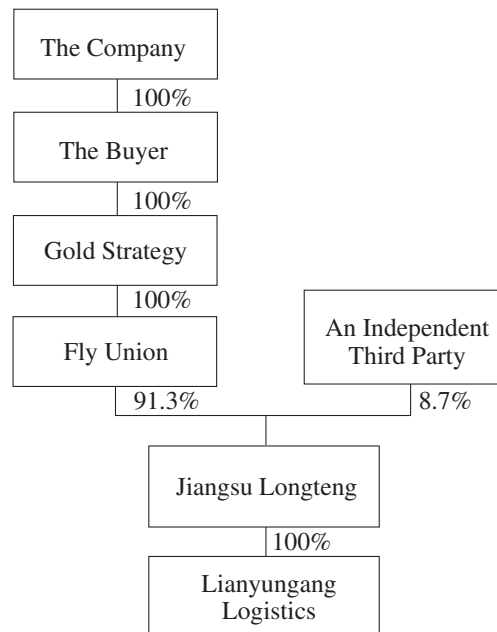
THE SHAREHOLDING STRUCTURE OF THE TARGET GROUP

Set out below are the shareholding structures of the Target Group (i) immediately before Completion; and (ii) upon Completion:

Immediately before Completion:



Upon Completion:



INFORMATION ON THE TARGET GROUP

The Target Group, which comprises Gold Strategy, Fly Union, Jiangsu Longteng and Lianyungang Logistics, is principally engaged in the exploitation, processing and sale of serpentine related products.

Gold Strategy is an investment holding company incorporated in the BVI with limited liabilities on 15 December 2006. As at the Latest Practicable Date, Gold Strategy has been authorized to issue 50,000 ordinary shares of no par value, of which one share of Gold Strategy has been issued and paid, where the Seller is its sole shareholder. The principal asset of Gold Strategy is its holding of 100% equity interest in Fly Union. Other than the shareholding in Fly Union, Gold Strategy has no business and asset as at the Latest Practicable Date.

Fly Union is an investment holding company incorporated in Hong Kong with limited liabilities on 8 November 2007. As at the Latest Practicable Date, Fly Union has an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.0 each, of which 100 shares of Fly Union have been issued and allotted and are fully paid or credited as fully paid. The principal asset of Fly Union is its holding of approximately 91.3% equity interest in Jiangsu Longteng. Other than the shareholding in Jiangsu Longteng, Fly Union has no business and asset as at the Latest Practicable Date.

LETTER FROM THE BOARD

Jiangsu Longteng is a sino-foreign equity joint venture enterprise established in the PRC on 12 November 2003. As at the Latest Practicable Date, Jiangsu Longteng is owned as to approximately 91.3% by Fly Union and as to approximately 8.7% by an Independent Third Party as at 31 March 2010. The registered capital of Jiangsu Longteng is RMB14,160,000 (equivalent to approximately HK\$16,276,000) as at 31 March 2010. Jiangsu Longteng is principally engaged in exploitation, processing and sales of serpentine related products. The principal asset of Jiangsu Longteng is its mining right of the Serpentine Mine.

Lianyungang Logistics is a wholly owned subsidiary of Jiangsu Longteng established in the PRC with limited liabilities on 10 January 2006. The registered capital of Lianyungang Logistics is RMB1,300,000 (equivalent to approximately HK\$1,494,000). Lianyungang Logistics is principally engaged in the provision of logistic services for the Serpentine Mine.

FINANCIAL INFORMATION OF THE TARGET GROUP

The Target Group

Set out below is the extract of certain financial information from the accountants' reports of the Target Group, the full text of which, prepared in accordance with the HKFRS, is set out in Appendix II to this circular:

	For the year ended 31 December		For the three months ended 31 March
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue	12,882	50,316	12,062
(Loss)/profit before tax	(17,317)	(6,831)	3,894
(Loss)/profit for the year/period	(18,185)	(9,840)	2,494

For each of the two years ended 31 December 2009 and the three months ended 31 March 2010, all of the revenue of the Target Group was derived from the sale of serpentine. The net losses incurred by the Target Group was mainly due to a provision of penalty in relation to the Non-compliance in the amount of approximately RMB21.3 million and RMB17.9 million made in each of the two years ended 31 December 2009 respectively. As at 31 March 2010, the Target Group had net liabilities of approximately RMB26.7 million which was mainly attributable to (i) the provision of penalty in relation to the Non-compliance amounting to RMB47.2 million as at 31 March 2010; and (ii) the recording of the Mine Interests at cost.

Based on the accountants' report on the Target Group, for information purpose only, the Sale Loans to be transferred to the Buyer under the Agreement amounted to approximately RMB13.9 million as at 31 March 2010.

LETTER FROM THE BOARD

The Longteng Group

Set out below is the extract of certain financial information from the accountants' reports of the Longteng Group, the full text of which, prepared in accordance with the HKFRS, is set out in Appendix II to this circular:

	For the year ended 31 December		For the three months ended 31 March
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue	40,320	50,316	12,062
(Loss)/profit before tax	(15,829)	(6,814)	3,894
(Loss)/profit for the year/period	(16,258)	(9,823)	2,494

For each of the two years ended 31 December 2009 and the three months ended 31 March 2010, all of the revenue of the Longteng Group was derived from the sale of serpentine. The net losses incurred by the Longteng Group was mainly due to a provision of penalty in relation to the Non-compliance in the amount of approximately RMB21.3 million and RMB17.9 million made in each of the two years ended 31 December 2009 respectively. As at 31 March 2010, the Longteng Group had net liabilities of approximately RMB34.8 million which was mainly attributable to (i) the provision of penalty in relation to the Non-compliance amounting to RMB47.2 million as at 31 March 2010; and (ii) the recording of the Mine Interests at cost.

Details of the management discussion and analysis of the results of the Target Group and the Longteng Group are set out in Appendix II to this circular.

DISCLAIMER OF OPINION IN THE ACCOUNTANTS' REPORT ON THE TARGET GROUP

The Directors would like to draw Shareholders' and investors' attention to Appendix II to this circular which sets out the financial information of the Target Group. As set out in the accountants' report on the Target Group (the "Target Accountants' Report") in Appendix II to this circular, (i) since there was no independent valuation report at the date of acquisition of the Longteng Group, the reporting accountants were unable to satisfy themselves as to whether the fair value of the identifiable assets and liabilities of the Longteng Group acquired and the goodwill generated from the acquisition were fairly stated; (ii) the reporting accountants were unable to obtain sufficient reliable evidence to satisfy themselves as to the reasonableness of the bases and assumptions used by the sole director of Gold Strategy in arriving at the valuation of the goodwill at the end of each reporting period; and (iii) as a result of the significant uncertainty relating to the going concern basis of the Target Group given the net current liabilities and net liabilities position of the Target Group, the reporting accountants were unable to express an opinion as to whether those consolidated financial statements give a true and fair view of the state of affairs of the Target Group as at 31 December 2008, 31

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December 2009 and 31 March 2010 and of the results and cash flows for each of the years ended 31 December 2008 and 2009 and the three months ended 31 March 2010.

Fair value of the Longteng Group at the date of acquisition and valuation of the goodwill at end of each reporting period

On 10 September 2008, the Target Group acquired 86% equity interest of the Longteng Group and the goodwill generated from the acquisition amounted to approximately RMB21.8 million. As there was no independent valuation report at the date of acquisition, the reporting accountants have been unable to satisfy themselves as to whether the fair value of the identifiable assets and liabilities of the Longteng Group acquired and the goodwill generated from the acquisition were fairly stated.

As stated in note 17 to the Target Accountants' Report as set out in Appendix II to the circular, the sole director of Gold Strategy has assessed the recoverable amount of goodwill at the end of each reporting period, based on a value-in-use calculation performed by the sole director. However, the reporting accountants have been unable to obtain sufficient reliable evidence to satisfy themselves as to the reasonableness of the bases and assumptions used by the sole director in arriving at the valuation performed at the end of each reporting period, and therefore as to whether the carrying amount of the goodwill as at 31 December 2008 and 2009 and 31 March 2010 are fairly stated.

The Board noted the disclaimer of opinion made by the reporting accountants in respect of the lack of fair value of the Longteng Group as at the date of the acquisition and the lack of sufficient reliable evidence to satisfy the reasonableness of the fair value of the goodwill of the Target Group at the end of each reporting period. However, the Board considers that it will not affect the future profitability of the Target Group, nor will it affect the Group's decision to acquire the Target Group given that after Completion, the financial statements of the Target Group will be consolidated into the financial statements of the Group which will have to follow the accounting policies of the Group; and the senior management of the Group will ensure that acquisition of any future assets by the Target Group will be provided with an independent valuation report as at the date of the acquisition and the goodwill of the Target Group will be subject to impairment review at the end of each reporting period with sufficient evidence to assess the reasonableness of the recoverable amount.

Significant uncertainty relating to the going concern basis of the Target Group

As set out in the Target Accountants' Report, the reporting accountants have considered the net current liabilities position of the Target Group of approximately RMB74.8 million as at 31 December 2009 and approximately RMB71.6 million as at 31 March 2010 and net liabilities of the Target Group of approximately RMB29.4 million as at 31 December 2009 and approximately RMB26.7 million as at 31 March 2010 respectively, and along with other matters as disclosed in note 1 to the financial statements of the Target Group, which indicate the existence of a material uncertainty which may cast doubt about the ability of the Target Group to continue as a going concern. However, as disclosed in note 1 to the financial statements of the Target Group, the sole director of Gold Strategy is of the opinion that the Target Group will have sufficient working capital to meet its

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financial obligations as and when they fall due for the next twelve months from 31 March 2010 and the financial statements of the Longteng Group have been prepared on a going concern basis given that (i) Mr Zhang Jun, the ultimate beneficial owner and sole director of Gold Strategy, will continue to provide financial support to the Target Group to meet its liabilities and commitments as and when it falls due before Completion; (ii) the sole director has also undertaken that he will not require repayment of amount due to him by the Target Group until the Target Group is financially capable of doing so; and (iii) the sole director of Gold Strategy anticipates that the Target Group will generate positive cash flows from its operations. In addition, the Company has agreed to provide financial support to the Target Group to enable it to meet its financial obligations as they fall due for the foreseeable future upon Completion.

However, while the reporting accountants consider that appropriate disclosures have been made, because of the significant uncertainty relating to whether the going concern basis adopted in the consolidated financial statements of the Target Group for the year ended 31 December 2009 and the three months ended 31 March 2010 is appropriate, the reporting accountants have disclaimed their opinion on the Target Accountants' Report.

The Board noted the disclaimer of opinion made by the reporting accountants in respect of significant uncertainty relating to the going concern basis of the Target Group and is aware that the Target Group had net current liabilities position and net liabilities position as at 31 December 2009 and 31 March 2010. Based on the Target Accountants' Report, the Board also noted that the net current liabilities and net liabilities positions of the Longteng Group as at 31 December 2009 and 31 March 2010 were mainly attributable to the penalty provision as mentioned in the paragraph headed "Financial information of the Target Group" above which in aggregate amounted to approximately RMB47.2 million (equivalent to approximately HK\$54.3 million). As a result of such provision, pursuant to the terms of the Agreement, HK\$55.0 million of the Consideration will only be paid to the Seller if the Seller can provide the No Claim Confirmation issued by the relevant PRC government authorities to Jiangsu Longteng confirming that they will not invoke or impose any claim or penalties against Jiangsu Longteng in respect of the Non-compliance in such form to the reasonable satisfaction of the Buyer within 6 months after Completion. In addition, the Agreement also provides that the mining right of Jiangsu Longteng under the mining licence for the Serpentine Mine should have been applied for modification with the production scale increased from 0.3Mt per annum to 0.6Mt per annum before Completion. After taken into account that the amount of the penalty provision, which resulted in the net liabilities of the Target Group as at 31 December 2009 and 31 March 2010, has been withheld from the Consideration and the Target Group has to increase its production scale to 0.6Mt per annum before Completion, the Board considers that the disclaimer of opinions in respect of the significant uncertainty relating to the going concern basis of the Target Group in the Target Accountants' Report will not affect the future profitability of the Target Group, nor will it affect the Group's decision to acquire the Target Group.

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DISCLAIMER OF OPINION IN THE ACCOUNTANTS' REPORT ON THE LONGTENG GROUP

The Directors would like to draw Shareholders' and investors' attention to Appendix II to this circular which sets out the financial information of the Longteng Group. As set out in the accountants' report on the Longteng Group (the "Longteng Accountants' Report") in Appendix II to this circular, as a result of (i) the lack of complete books and records of 江蘇昊美化工有限公司 ("昊美化工"), the reporting accountants were unable to carry out audit procedures necessary to obtain adequate assurance on the financial information of 昊美化工; and (ii) the significant uncertainty relating to the going concern basis of the Longteng Group given the net current liabilities and net liabilities position of the Longteng Group, the reporting accountants were unable to express an opinion as to whether those consolidated financial statements give a true and fair view of the state of affairs of the Longteng Group as at 31 December 2007, 2008 and 2009 and 31 March 2010 and of the results and cash flows for each of the years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2010.

Incomplete books and records of 昊美化工

As set out in the Longteng Accountants' Report, as at 31 December 2007, the Longteng Group and Jiangsu Longteng had 30% equity interest in a jointly-controlled entity, namely 昊美化工. The directors of Jiangsu Longteng accounted for the Longteng Group's and Jiangsu Longteng's share of results of the jointly controlled entity for the year ended 31 December 2007 and interest in the jointly controlled entity as at 31 December 2007 based on unaudited management accounts of 昊美化工 for the year ended 31 December 2007. Due to lack of complete books and records of 昊美化工, the reporting accountants were unable to carry out audit procedures necessary to obtain adequate assurance on the financial information of 昊美化工. As a result, the reporting accountants are unable to determine whether the interest in the jointly controlled entity as at 31 December 2007 and share of results of the jointly controlled entity for the year ended 31 December 2007 are fairly stated and any adjustment to the figures may have a consequential significant effect on the loss for the year ended 31 December 2007 and net liabilities of the Longteng Group and Jiangsu Longteng as at 31 December 2007.

In addition, on 15 August 2008 (the "Disposal Date"), the Longteng Group disposed of its interest in 昊美化工. After the disposal, the Longteng Group and Jiangsu Longteng no longer have access to the accounting records of 昊美化工 and the reporting accountants were unable to obtain sufficient audit evidence regarding the value of the net assets or liabilities of 昊美化工 disposed of by the Longteng Group at the Disposal Date and hence the gain on disposal arising therefrom. Any adjustments found to be necessary would affect the amount recorded in the consolidated statement of comprehensive income in respect of 昊美化工 up to the Disposal Date, with a corresponding effect on the gain on disposal for the year ended 31 December 2008.

LETTER FROM THE BOARD

The Board noted the disclaimer of opinion made by the reporting accountants in respect of the lack of financial information of 昊美化工 and is aware that the Longteng Group and Jiangsu Longteng no longer have access to the accounting records of 昊美化工. Notwithstanding the limitation of financial information of 昊美化工 provided by the Seller, the Board considers that the disclaimer of opinions in respect of the lack of financial information of 昊美化工 in the Longteng Accountants' Report will not affect the future profitability of the Target Group, nor will it affect the Group's decision to acquire the Target Group given (i) the Longteng Group has already disposed of its interests in 昊美化工 on the Disposal Date; and (ii) the decision to acquire the Target Group is not only because of its historical financial position but also of the Serpentine Mine, as well as other reasons more particularly mentioned in the paragraph headed "Reasons for the Acquisition" below. In addition, the Company had obtained a PRC legal opinion (the "PRC Legal Opinion") issued by a PRC law firm to confirm that the Longteng Group will not have any shareholder related obligation for being an ex-shareholder of 昊美化工.

Significant uncertainty relating to the going concern basis of the Longteng Group

As set out in the Longteng Accountants' Report, the reporting accountants have considered the net current liabilities position of the Longteng Group and Jiangsu Longteng of approximately RMB61.1 million and RMB63.4 million and net liabilities position of the Longteng Group and Jiangsu Longteng of approximately RMB37.4 million and RMB39.7 million as at 31 December 2009 respectively. We have also considered the net current liabilities position of the Longteng Group and Jiangsu Longteng of approximately RMB57.8 million and RMB60.3 million and net liabilities position of the Longteng Group and Jiangsu Longteng of approximately RMB34.8 million and RMB37.1 million as at 31 March 2010 respectively and along with other matters as disclosed in note 1 to the financial statements of the Longteng Group, which indicate the existence of a material uncertainty which may cast doubt about the ability of the Longteng Group to continue as a going concern. However, as disclosed in note 1 to the financial statements of the Longteng Group, the directors of Jiangsu Longteng are of the opinion that the Longteng Group and Jiangsu Longteng will have sufficient working capital to meet their financial obligations as and when they fall due for the next twelve months from 31 March 2010 and the financial statements of the Longteng Group have been prepared on a going concern basis given that (i) Mr Zhang Jun, the ultimate beneficial owner of the Longteng Group and Jiangsu Longteng, will continue to provide financial support to the Longteng Group and Jiangsu Longteng to meet their liabilities and commitments as and when they fall due before Completion; and (ii) the directors of Jiangsu Longteng anticipates that the Longteng Group and Jiangsu Longteng will generate positive cash flows from its operations. In addition, the Company has agreed to provide financial support to the Longteng Group and Jiangsu Longteng to enable it to meet their financial obligations as they fall due for the foreseeable future upon Completion.

However, the reporting accountants consider that appropriate disclosures have been made but because of the significant uncertainty relating to whether the going concern basis adopted in the consolidated financial statements of the Longteng Group and Jiangsu Longteng for the year ended 31 December 2009 and the three months ended 31 March 2010 is appropriate, the reporting accountants have disclaimed their opinion on the Longteng Accountants' Report.

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The Board noted the disclaimer of opinion made by the reporting accountants in respect of significant uncertainty relating to the going concern basis of the Longteng Group and is aware that the Longteng Group had net current liabilities position and net liabilities position as at 31 December 2009 and 31 March 2010. Based on the Longteng Accountants' Report, the Board also noted that the net current liabilities and net liabilities positions of the Longteng Group as at 31 December 2009 and 31 March 2010 were mainly attributable to the penalty provision as mentioned in the paragraph headed "Financial information of the Target Group" above which in aggregate amounted to approximately RMB47.2 million (equivalent to approximately HK\$54.3 million). As a result of such provision, pursuant to the terms of the Agreement, HK\$55.0 million of the Consideration will only be paid to the Seller after Completion if the Seller can provide the No Claim Confirmation issued by the relevant PRC government authorities to Jiangsu Longteng confirming that they will not invoke or impose any claim or penalties against Jiangsu Longteng in respect of the Non-compliance in such form to the reasonable satisfaction of the Buyer within 6 months after Completion. In addition, the Agreement also provides that the mining right of Jiangsu Longteng under the mining licence for the Serpentine Mine should have been applied for modification with the production scale increased from 0.3Mt per annum to 0.6Mt per annum before Completion. After taken into account the amount of the penalty provision, which resulted in the net liabilities of the Longteng Group as at 31 December 2009 and 31 March 2010, has been withheld from the Consideration and the Longteng Group has to increase its production scale to 0.6Mt per annum before Completion, the Board considers that the disclaimer of opinions in respect of the significant uncertainty relating to the going concern basis of the Longteng Group in the Longteng Accountants' Report will not affect the future profitability of the Target Group, nor will it affect the Group's decision to acquire the Target Group.

Despite the reporting accountants have disclaimed their opinion on the Target Accountants' Report and the Longteng Accountants' Report, after having taken into account the reasons stated above, in particular, (i) it will not affect the future profitability of the Target Group; (ii) the acquisition of the Target Group is not only because of its historical financial position but also of the Serpentine Mine; (iii) Mr Zhang Jun, the ultimate beneficial owner and sole director of Gold Strategy, will continue to provide financial support to the Target Group to meet its liabilities and commitments as and when they fall due before Completion; (iv) the sole director of Gold Strategy anticipates that the Target Group will generate positive cash flows from its operations; (v) the Company has agreed to provide financial support to the Target Group to enable it to meet its financial obligations as they fall due for the foreseeable future upon Completion; (vi) the value of the Serpentine Mine as appraised by the Valuer of approximately RMB354 million as at 31 August 2010; and (vii) the reasons mentioned in the paragraph headed "Reasons for the Acquisition" below, the Directors consider the terms of the Acquisition are fair and reasonable and the Acquisition is in the interest of the Shareholders as a whole.

INFORMATION ON AND DEVELOPMENT PLAN OF THE SERPENTINE MINE

The Serpentine Mine is located 29km to the northwest of Donghai County of Jiangsu Province, the PRC. The Serpentine Mine commenced production in 1964 and was shut down in 1980 due to technical problems. The Serpentine Mine resumed mining operations via open cut in 1983.

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Serpentine is a type of mineral that contains magnesium and silicon as its main components. It can be used as indispensable auxiliary raw materials for metallurgical flux and steel smelting and making, and can be used as raw materials for extraction of magnesium oxide, producing calcium, magnesium and phosphate fertilizers as well as metallurgical flux in the PRC. Currently, the major customers of Jiangsu Longteng are enterprises in the PRC that are engaged in the iron and steel refinery sector.

Pursuant to the mining licence granted by Jiangsu Land and Resources Department, which is subject to renewal upon expiry in 2017, Jiangsu Longteng is permitted to mine at a depth from 65m (above sea level) to 17.5m (above sea level) within the permitted area of 0.4972km² at a permitted capacity of 0.3Mt per annum.

Based on the Technical Report as set out in Appendix IV to this circular, the underlying data, Mineral Resource and Ore Reserve estimates completed by Minarco for the Serpentine Mine comply with the recommendations in the JORC Code. The Probable Ore Reserves estimate amounts to approximately 55Mt at 38.5% MgO. The JORC Mineral Resource estimate is summarised below and reported in the current permitted area and the proposed expanded permit area.

Licence	JORC Classification	Measured		Indicated		Inferred		Total	
	Class	Tonnes	MgO	Tonnes	MgO	Tonnes	MgO	Tonnes	MgO
		Mt	%	Mt	%	Mt	%	Mt	%
Current	Class 1 ^{note 1}	11.7	39.4	3.0	39.7	0.00	0.0	14.7	39.5
	Class 2 ^{note 2}	3.5	35.6	1.1	34.4	0.00	0.0	4.7	35.3
Expanded ^{note 3}	Class 1	68.7	39.9	26.4	39.9	0.00	0.0	95.1	39.9
	Class 2	4.5	35.4	4.4	36.3	0.00	0.0	8.9	35.9

Notes:

1. Class 1 refers to material above 38% MgO.
2. Class 2 refers to material between 32% and 38% MgO.
3. Expanded permit boundary has been supplied to Minarco by the Target Company. Minarco understands this permit will be under application in the near future, as outlined below.

The above data indicates that there is a significant amount of potentially recoverable Mineral Resources outside the current licensed mining area. In order to utilize the recoverable Mineral Resources and generate better return for Jiangsu Longteng, it is intended that the existing mining capacity of Jiangsu Longteng of approximately 0.3Mt per annum will be firstly raised to 0.6Mt per annum and then further increased to a maximum of approximately 2.0Mt per annum and the mining process be outsourced and subcontracted to an independent mining company such that Jiangsu Longteng will focus on the crushing operation. The Company has been advised by its PRC legal advisers that provided that Jiangsu Longteng duly complies and fulfills all applicable PRC legal requirements, there is no existence of any substantive legal impediment which would preclude Jiangsu Longteng from obtaining the new licence.

LETTER FROM THE BOARD

The applied mining method is the conventional drill & blast and load & haul mining method that is currently used at the operation. Due to the presence of ground water, a water proof emulsion explosive is used. The material is loaded as a single 10m bench using small face shovels and hauled from the pit using small rigid dump trucks. The ore is hauled directly to the crusher of Jiangsu Longteng where it is dumped directly into the crusher bin. Waste is hauled to a waste dump adjacent to the pit. The current haul distances between the pit and Jiangsu Longteng's crushing plant are relatively short.

Jiangsu Longteng has engaged an open cut mining contractor to undertake planned mining works. Pursuant to the outsourcing contract, the contractor operating costs are agreed at an aggregate fee of RMB6.88 per mined tonne for ore mining and RMB5.50 per mined tonne for waste pre-stripping which is scheduled in the early years of the mine plan. The mining operations to be outsourced include pre-stripping, loading, drilling, blasting and hauling. Pursuant to the outsourcing contract, the ore will be delivered to the crushing plant, which will continue to be operated by Jiangsu Longteng.

The full text of the Technical Report is set out in Appendix IV to this circular.

VALUATION OF THE SERPENTINE MINE

The Company has appointed the Valuer, an independent firm of valuers, to conduct the Valuation Report and the value of the entire interest of the mineral rights of the Serpentine Mine as appraised by the Valuer as of 31 August 2010 was approximately RMB354 million (equivalent to approximately HK\$406.9 million). In arriving at such valuation, the Valuer has applied the income approach with the use of the discounted cash flow method under which, value depends on the present worth of future economic benefits to be derived from the Serpentine Mine. The full text of the Valuation Report, including details of the valuation methodology and assumptions, is set out in Appendix V to this circular.

MARKET INFORMATION OF SERPENTINE

This section is extracted from the market research report "Serpentine in China" from Freedonia Custom Research, Inc. as commissioned by the Company.

Usage of serpentine

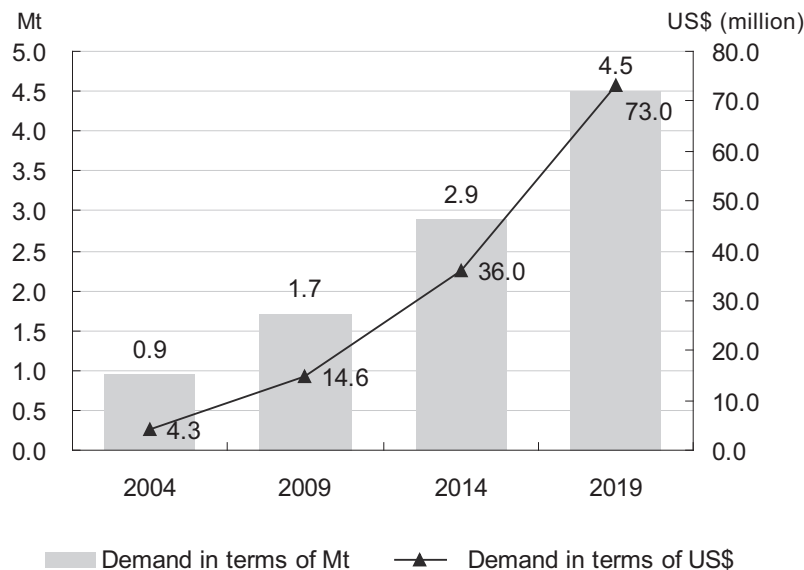
Serpentine finds greatest use as a flux to raise magnesium and silicon levels, and remove impurities from metal via the formation of slag. Serpentine is most commonly used when the iron ore to be processed has low levels of silicon. The Chinese iron ore is known for its high silicon content while the iron ore in Brazil and South Africa are commonly known as low silicon levels. In order to contain costs, the iron and steel manufacturers in the PRC are expected to continue imports of the relatively inexpensive iron ore mined in Brazil and South Africa and to switch from more expensive fluxes to serpentine.

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The rising demand of Serpentine in the PRC

According to market research prepared by Freedonia Custom Research, Inc, the demand for serpentine in the PRC is forecasted to rise at a compound annual growth rate (“CAGR”) of approximately 11.3% from approximately 1.7Mt in 2009 to approximately 2.9Mt in 2014. Gains will be spurred by growing pig iron and steel output and rising iron ore prices. Further demand growth is projected to advance at an annual growth rate of 9.2% to 2019, representing 4.5Mt of demand. In value terms, serpentine demand in China is expected to rise at a CAGR of 19.8% to approximately US\$36 million over the 2009-2014 periods. Robust growth will be supported by increases in serpentine prices due to higher energy and material costs. The chart below illustrates the rapid rising demand of serpentine in the PRC from 2004 to 2009 and the expected growth of serpentine demand in the PRC from 2009 to 2019:

Serpentine demand in the PRC



Source: Freedonia Custom Research, Inc.

Rising iron ore price will cause iron and steel manufacturers to increase their purchases of relatively low-cost iron ore, such as Brazil and South Africa as aforementioned, which benefits from the use of serpentine fluxes that increase both magnesium and silicon levels, and to switch from more expensive fluxes to serpentine. In addition, serpentine demand will be supported by the increased iron and steel requirements associated with rising construction spending and manufacturing output going forward. Furthermore, the increasing fertilizer output will also boost demand. Three types of fertilizer compounds incorporate serpentine, namely silicon magnesium sulfate, calcium magnesium phosphate and silicon magnesium.

LETTER FROM THE BOARD

Major players in the PRC serpentine industry

The top five serpentine producers supplied more than 75% of Chinese demand in value terms in 2009. Jiangsu Longteng was the leader with a 28% share and is regarded to supply serpentine of a quality and price that are among the highest in the industry. Jiangsu Longteng as illustrated in table below was the leading supplier of serpentine to the PRC. All of the top five serpentine producers supply serpentine mainly to steel producers.

Company	2009 Market Share (% of total)	2009 Domestic Serpentine Sales (% of total)	Target end-use Segments	Identified Major Customers
Jiangsu Longteng	28	100	Iron and steel, fertilizer	Steel producers located in Shanghai, Anhui province, Jiangsu and Hebei provinces
Supplier A located in Shandong province	22	90	Iron and steel, others	Steel producers located in Shanghai, Hebei and Shandong provinces
Supplier B located in Jiangxi province	11	100	Iron and steel, fertilizer	Steel producer in Shanghai
Supplier C located in Hubei province	10	100	Iron and steel, others	Steel producers in Shanghai and Jiangsu provinces
Supplier D located in Jiangxi province	7	100	Iron and steel, others	Steel producer in Shanghai, Jiangsu and Zhejiang provinces

Source: Freedonia Custom Research, Inc.

RELEVANT RULES AND REGULATIONS FOR THE TARGET GROUP'S BUSINESSES

The *Mineral Resources Law of the People's Republic of China* (amended in 1996), or the *Mineral Resources Law*, the *Rules for Implementation of the Mineral Resources Law of the People's Republic of China* (1994) and the *Environmental Protection Law of the People's Republic of China* (1989) provide the main legislative framework for the regulation and administration of mining projects environmental impacts.

The following articles of the *Mineral Resources Law* summarize the specific provisions in relation to environmental protection:

Article 15 Qualification & Approval

Anyone who wishes to establish a mining enterprise must meet the qualifications prescribed by the State, and the department in charge of examination and approval shall, in accordance with law and relevant State regulations examine the enterprise's mining area, its mining design or mining plan, production and technological conditions and safety and environmental protection measures. Only those that pass the examination shall be granted approval.

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Article 21 Closure Requirements

If a mine is to be closed down, a report must be prepared with information about the mining operations, hidden dangers, land reclamation and utilisation, and environmental protection, and an application for examination and approval must be filed in accordance with relevant State regulations.

Article 32 Environmental Protection Obligations of Mining License Holders

In mining mineral resources, a mining enterprise or individual must observe the legal provisions on environmental protection to prevent pollution of the environment. In mining mineral resources, a mining enterprise or individual must economise on the use of land. In case cultivated land, grassland or forest land is damaged due to mining, the mining enterprise concerned shall take measures to utilize the land affected, such as by reclamation, tree and grass planting, as appropriate to the local conditions. Anyone who, in mining mineral resources, causes losses to the production and well-being of other persons shall be liable for compensation and shall adopt necessary remedial measures.

The following articles of the *Environmental Protection Law (1989)* summarize the specific provisions for environmental protection in relation to mining:

Article 13 Environmental Protection

Units constructing projects that cause pollution to the environment must observe the state provisions concerning environmental protection for such construction projects. The environmental impact statement on a construction project must assess the pollution the project is likely to produce and its impact on the environment and stipulate the preventive and curative measures; the statement shall, after initial examination by the authorities in charge of the construction project, be submitted by specified procedure to the competent department of environmental protection administration for approval. The department of planning shall not ratify the design plan descriptions of the construction project until after the environmental impact statement on the construction project is approved.

Article 19 Statement of requirement for Environmental Protection

Measures must be taken to protect the ecological environment while natural resources are being developed or utilised.

Article 24 Responsibility for Environmental Protection

Units that cause environmental pollution and other public hazards shall incorporate the work of environmental protection into their plans and establish a responsibility system for environmental protection, and must adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

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Article 26 Pollution Prevention & Control

Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used, until its installations for the prevention and control of pollution are examined and considered up to the standard by the competent department of environmental protection administration that examined and approved the environmental impact statement.

Article 27 Report on Pollution Discharge

Enterprises and institutions discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council.

Article 38 Violation Consequences

An enterprise or institution which violates this Law, thereby causing an environmental pollution accident, shall be fined by the competent department of environmental protection administration or another department invested by law with power to conduct environmental supervision and management in accordance with the consequent damage; in a serious case, the persons responsible shall be subject to administrative sanction by the unit to which they belong or by the competent department of the government.

The following articles of the *Regulations on the Administration of Construction Project Environmental Protection* (November 1998) summarize the specific provisions for undertaking a project's Final Checking and Acceptance process:

- **Article 20** – *The construction unit should, upon completion of a construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project.*

Acceptance checks for completion of construction of environmental protection facilities should be conducted simultaneously with the acceptance checks for completion of construction of the main body project. Where trial production is required for the construction project, the construction unit should, within 3 months starting from the date of the said construction project going into trial production, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project.

LETTER FROM THE BOARD

- *Article 21* – For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.
- *Article 22* – Competent departments of environmental protection administration should, within 30 days starting from the date of receipt of the application for acceptance checks on completion of construction of the environmental protection facilities, complete the acceptance checks.
- *Article 23* – The said construction project may only formally go into production or be delivered for use when the matching construction of the environmental protection facilities required for the construction project has passed acceptance checks.

The following article of the *Water & Soil Conservancy Law* (1991) summarizes the provisions for the preparation and approval of Water and Soil Conservation Plans:

- *Article 19* – When the construction of a railway, highway or a water project is carried out, a mining or electrical power enterprise or any other large or medium-sized industrial; enterprise is established in a mountainous, hilly or sandstorm area, the environmental impact statement for the project must include a water and soil conservation programme approved by the department of water administration. The water and soil conservation programme shall be drawn up in accordance with the provisions of Article 18 of this Law.

Where a township collective mining enterprise is to be set up or an individual is to apply for mining, in accordance with the provisions of the *Law on Mineral Resources*, in a mountainous, hilly or sandstorm area, a water and soil conservation programme approved by the department of water administration under the people's government at or above the county level must be submitted before the application for going through the approving procedures for mining operation is made.

Water and soil conservation facilities in a construction project must be designed, constructed and put into operation simultaneously with the principal part of the project. When a construction project is completed and checked for acceptance, the water and soil conservation facilities shall be checked for acceptance at the same time, with personnel from the department of water administration participating.

The following are other Chinese laws that provide environmental legislative support to the *Minerals Resources Law* (1996) and the *Environmental Protection Law* (1989):

Environmental Impact Assessment (EIA) Law (2002).

Law on Prevention & Control of Atmospheric Pollution (2000).

Law on Prevention & Control of Pollution from Environmental Noise (1996).

Law on Prevention & Control of Water Pollution (2008).

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Law on Prevention & Control of Environmental Pollution by Solid Wastes (2004).

Forestry Law (1998).

Water Law (1988).

Water Conservancy Industrial Policy (1997).

Land Administration Law (2004).

Protection of Wildlife Law (2004).

Energy Conservation Law (2007).

Electric Power Law (1995).

Management Regulations of Prevention & Cure of Tailings Pollution (1992).

The relevant environmental protection related Chinese legislation that are required to be utilised for project's design are a combination of the following National design regulations and emissions standards:

Environment Protection Design Regulations of Construction Project (No.002) by Environment Protection Committee of State Council of PRC (1987).

Regulations on the Administration of Construction Project Environmental Protection (1998).

Regulations for Quality Control of Construction Projects (2000).

Regulations for Environmental Monitoring (1983).

Comprehensive Emission Standard of Wastewater (GB8978-1996).

Environmental Quality Standard for Surface Water (GB3838-2002).

Environmental Quality Standard for Groundwater (GB/T14848-1993).

Ambient Air Quality Standard (GB3095-1996).

Comprehensive Emission Standard of Atmospheric Pollutants (GB16297-1996).

Emission Standard of Atmospheric Pollutants from Industrial Kiln (GB9078-1996).

Environmental Quality Standard for Soils (GB15618-1995).

Standard of Boundary Noise of Industrial Enterprise (GB12348-2008).

LETTER FROM THE BOARD

LEGAL ISSUES ON THE SERPENTINE MINE

Based on the due diligence on the Target Group conducted by the Group, as at the Latest Practicable Date,

- (i) there was no non-governmental organization which would have an impact on the sustainability of the Serpentine Mine;
- (ii) save for the over production of Jiangsu Longteng which exceeded the permitted production capacity of 0.3Mt per annum, the underpayment for the social security fees and housing fund and the pending approval of the environment protection examination, the Target Group had no non-compliance with the country laws, regulations and permits and payments have been made to the PRC government in respect of tax, royalties and other significant payments;
- (iii) the Target Group has no historical experience of dealing with host country laws and practices, including management of difference between national and local practice;
- (iv) the Target Group has no historical experience of dealing with concerns of local governments and communities on the sites of its mines, exploration properties, and relevant management arrangements; and
- (v) there was no claims that may exist over the land on which exploration or mining activity is being carried out, including any ancestral or native claims.

RISK FACTORS

Set out below are the risk factors which may be associated with the Acquisition:

Fluctuation in the price and demand of serpentine

The Directors consider that there are many factors which may influence the price and demand of serpentine in the PRC market, including but not limited to the usage of serpentine in the iron and steel industry in the PRC, demand and supply of iron and steel and the economic situation of the PRC, which are beyond the control of the Enlarged Group. The price and demand of serpentine may differ from the market information as disclosed in the section headed “Market information of serpentine” above.

Realisation of the serpentine resource

The amounts of serpentine resource in the Serpentine Mine have been estimated to a reasonable to high level of confidence based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques. The locations are spaced closely enough to confirm geological and grade continuity. Minor changes to grade may occur at a local scale from that estimated by Minarco. These are unlikely to be material to the project economics or feasibility.

LETTER FROM THE BOARD

New mining sector of the Group

The Acquisition constitutes an investment in a new mining sector for the Group apart from the magnesium mine. The new sector, coupled with the regulatory environment, may pose significant challenges to the Company's administrative, financial and operational resources. Since the Company does not have significant experience in the serpentine mining business, it is not in a position to ascertain the timing and amount of any return or benefits that may be received from such new sector. If the serpentine business does not develop and progress as planned, the Company may not recover the funds and resources it has spent, and this may adversely affect Jiangsu Longteng.

Sustainability of the business model

The sales contracts signed between Jiangsu Longteng and its customers are relatively short or with no specified term provided, and there is no guarantee that all of these customers will continue to engage Jiangsu Longteng as its serpentine supplier in the future. If any one of these customers declines to renew or otherwise terminate its contract of purchase with Jiangsu Longteng whilst new customers are not solicited, the turnover of Jiangsu Longteng may be adversely affected.

The PRC government regulations on the mining industry

The mining industry is subject to various government policies and regulations, including but not limited to, exploitation, development, taxation, safety, environmental and other problems. As disclosed in the section headed "Legal issues on the Serpentine Mine" above, as at the Latest Practicable Date, save for the over production of Jiangsu Longteng which exceeded the permitted production capacity of 0.3Mt per annum, the underpayment for the social security fees and housing fund and the pending approval of the environment protection examination, the Target Group had no non-compliance with the country laws, regulations and permits. Any enforcements or changes to those policies may increase the operating costs of the Target Group and hence, adversely affect the operating results of the Enlarged Group.

Uncertainties in obtaining the new mining licence with increased mining capacity

In order to meet the expected annual production volume at the Serpentine Mine, the Target Group intends to increase the existing production capacity of Jiangsu Longteng from approximately 0.3Mt per annum to 0.6Mt per annum and further increase to 2.0Mt per annum. Despite the Company having been advised by its PRC legal advisers that provided that Jiangsu Longteng duly complies and fulfills all applicable PRC legal requirements, there is no existence of any substantive legal impediment which would preclude Jiangsu Longteng from obtaining the new mining licence, the issuance of the new mining licence is subject to final approval of relevant PRC government authorities which the Target Group might not be able to obtain.

The valuation of the Serpentine Mine

The Valuation Report related to the Serpentine Mine as disclosed in Appendix V to this circular involves various assumptions and therefore such valuation may or may not effectively reflect the true value of the Serpentine Mine.

LETTER FROM THE BOARD

Dependence on mining contractor

According to the Target Group's current mining plan, the mining operations of serpentine will be outsourced to mining contractors. However, there is no assurance on the performance of such mining contractors. Should there be any delays in completing the mining operations or any breach of laws or regulations by such mining contractor or any change of mining subcontracting fee payable by the Target Group to such mining contractor, the results of the mining operations of the Enlarged Group may be adversely affected.

Land use

Certain portion of the land used by the Serpentine Mine is leased and there is no assurance that the amount of rental to be paid by the Target Group can remain at a similar level. Hence, the financial results of the Serpentine Mine may be adversely affected should the rental payment be significantly increased.

Operation risks

The operation of the Serpentine Mine is subject to a number of risks and hazards, including environmental pollution, accidents or spills, industrial and transportation accidents, unexpected labour shortages and compensatory claims, disputes or strikes, cost increase for contracted and/or purchased goods and services; shortages of required materials and supplies; electrical power interruptions, mechanical and electrical equipment failure; natural phenomena; and unusual or unexpected geological conditions.

For further details of risks from a technical aspect, please kindly refer to the section headed "Risks, opportunities and critical issues" under the Technical Report as set out in Appendix IV to this circular.

REASONS FOR THE ACQUISITION

The Company is an investment holding company and the Group is principally engaged in the production and sales of agriculture related products, raw materials and magnesium-related products.

As disclosed in the interim report of the Company for the six months ended 30 June 2009, although the Group was still optimistic towards the agricultural market, it was the Group's long term goal to broaden its revenue streams and reduce the reliance on single business operation. As mentioned in the announcement of the Company dated 24 December 2009, the Group entered into an agreement to acquire an exploration right of a dolomite mine in Jilin Province, the PRC. The mine under the exploration right contains a kind of minerals namely dolomite, which is a main raw material for production of magnesium ingots. This marked the Group's intention to engage in magnesium-related businesses. The Group also expanded into the financial service sector and acquired a financial service group in Hong Kong as disclosed in the announcement of the Company dated 18 June 2010.

LETTER FROM THE BOARD

As stated in the annual report of the Company for the year ended 31 December 2009, the Acquisition is one of the Group's top priorities and the Group will make efforts to complete the Acquisition as soon as possible so as to generate contributions to the Group. The Group believes that as serpentine is a major auxiliary material in the iron and steel manufacturing process, and given that manufacturers have more understanding and acceptance about serpentine as a secondary raw material for steel making and smelting, the future serpentine business will benefit from the continuous development of the iron and steel industry in the PRC. On the other hand, serpentine contains magnesium and silicon as its main components and can be used in the production of fertilizers which is the core business of the Group. Therefore, the Acquisition will help securing the upper stream raw materials for the Group in magnesium smelting and fertilizers production while allowing the Group to reap benefits from the continual development of iron and steel industry of the PRC. In addition, the Directors also believe that, given Jiangsu Longteng was ranked as the market leader in the PRC with considerable market share according to Freedonia Custom Research, Inc, the Acquisition can diversify the Group's business to a further extent and create synergy effects with existing businesses, enabling future results and investment return to blossom.

The Directors have noted disclaimer opinion on the accountants reports of the Target Group and Longteng Group as referred to in Appendix II to this circular. However, after having taken into account the reasons stated above, in particular, (i) Jiangsu Longteng is the largest serpentine supplier in the PRC in 2009 and the possible rising demand of serpentine is expected according to Freedonia Custom Research, Inc; (ii) the Probable Ore Reserves estimate of the Serpentine Mine amounts to approximately 55Mt at 38.5% MgO according to Minarco; and (iii) the Consideration represent a discount of approximately 1.2% to the value of the Serpentine Mine of approximately RMB354 million according to the Valuer attributable to Gold Strategy of approximately RMB323.2 million (equivalent to approximately HK\$371.5 million), the Directors consider the terms of the Acquisition are fair and reasonable and the Acquisition is in the interest of the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, Gold Strategy and Fly Union will become wholly owned subsidiaries of the Company while Jiangsu Longteng and Lianyungang Logistics will become non-wholly owned subsidiaries of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group.

As illustrated in the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular, subsequent to Completion, the total consolidated net assets attributable to owners of the Company would increase from approximately RMB932.1 million as at 30 June 2010 to approximately RMB952.8 million on the assumption that the Acquisition had taken place on 30 June 2010. The total assets would increase from approximately RMB1,177.4 million to RMB1,396.3 million and the total liabilities would increase from approximately RMB190.0 million to RMB368.3 million. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular, the Enlarged Group would recognize a goodwill of approximately RMB66.0 million which was mainly attributable to the difference between the fair value of the net assets of the Target Group acquired and the cost of the Acquisition.

Shareholders should note that the actual amount of the goodwill that arises from the Acquisition would be determined on the date of Completion. Since the fair value of the assets and liabilities of the Target Group and the fair value of the Consideration at Completion may be substantially different from the estimates used for the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular, the actual amount of the goodwill arising from the Acquisition may be different from the estimated goodwill.

LETTER FROM THE BOARD

As mentioned in the section headed “Financial information of the Target Group” above, the losses of the Target Group for the two years ended 31 December 2009 were mainly attributable to penalty provision in relation to the Non-compliance. Pursuant to the terms of the Agreement, the mining right of Jiangsu Longteng under the mining licence for the Serpentine Mine should have been applied for modification with the production scale increased from 0.3Mt per annum to 0.6Mt per annum before Completion. Accordingly, the Non-compliance is not expected to be continue after Completion and the profitability of the Target Group is expected to improve.

Having considered the future prospects of the serpentine market as mentioned in the section headed “Market information of serpentine” above, the Board expects that the Acquisition will have a positive impact on the earnings of the Group in the future.

TRADING AND FINANCIAL PROSPECTS OF THE ENLARGED GROUP

Currently, the Group is principally engaged in the production and sales of agriculture related products, raw materials and magnesium-related products. The Company plans to diversify its revenue streams and reduce the reliance on single business operation. As mentioned in the announcement of the Company dated 24 December 2009, the Group entered into an agreement to acquire an exploration right of a dolomite mine in Jilin Province, the PRC which allows the Group to engage in magnesium-related businesses. The Group also expanded into the financial service sector and acquired a financial service group in Hong Kong as disclosed in the announcement of the Company dated 18 June 2010.

After Completion, apart from the existing business of the Group, the Group will expand its business scope to engage in the serpentine market. Going forward, the Group plans to increase the production capacity in Serpentine Mine to 2Mt per annum and to allocate more resources and capital to develop its mining business.

Having considered the future trading prospects of the serpentine market and the niche position of the Target Group within the market as mentioned in the section headed “Market Information of Serpentine” above and industry, the Board believes that the Acquisition will enhance the future trading and financial prospects to the Group.

LISTING RULES IMPLICATION

The Acquisition constitutes a major acquisition for the Company under Chapter 14 of the Listing Rules. Accordingly, the Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Shareholders’ approval requirements under the Listing Rules.

RE-ELECTION OF DIRECTOR

Pursuant to article 86(3) of the articles of association of the Company, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Mr. Sheng Hong, being the independent non-executive Director appointed by the Board on 24 September 2010, shall retire at the EGM and, being eligible, would offer himself for re-election at the EGM.

LETTER FROM THE BOARD

Details of Mr. Sheng Hong who is proposed to be re-elected at the EGM are set out in Appendix VI of this circular.

EGM

The EGM will be held at Unit 3907, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong on Thursday, 14 October 2010 at 2:30 p.m. to consider and, if thought fit, approve, the necessary ordinary resolutions regarding the Agreement and the transactions contemplated thereunder and the re-election of Mr. Sheng Hong as independent non-executive Director. As no Shareholder has material interest in the Agreement and the re-election of Mr. Sheng Hong as independent non-executive Director, no Shareholder will be required to abstain from voting on the resolutions approving the Agreement and the transactions contemplated thereunder and the re-election of Mr. Sheng Hong at the EGM.

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

RECOMMENDATION

The Directors believe that the terms of the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Acquisition.

The Directors also believe that the re-election of Mr. Sheng Hong as an independent non-executive Director is in the interests of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM in respect thereof.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Chi Wen Fu
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 31 December 2009 and the six months ended 30 June 2009 and the six months ended 30 June 2010, as extracted from the relevant annual reports and interim report of the Company.

(i) Consolidated Income Statement

	For the year ended 31 December			Six months ended 30 June	
	2009	2008	2007	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	(Unaudited)
Revenue	385,309	386,782	322,102	180,276	208,046
Cost of sales	(314,263)	(327,525)	(201,298)	(149,845)	(175,040)
Gross profit	71,046	59,257	120,804	30,431	33,006
Other income and gains	23,377	30,196	17,828	6,906	9,842
Selling and marketing costs	(10,722)	(7,770)	(10,760)	(5,017)	(5,004)
Administrative expenses	(33,694)	(45,556)	(42,813)	(19,156)	(12,078)
Discount on acquisition of subsidiaries	–	4,527	–	–	–
Finance costs	(7,917)	(8,260)	(6,348)	(3,902)	(3,857)
Profit before income tax	42,090	32,394	78,711	9,262	21,909
Income tax expense	(8,645)	(10,047)	(15,916)	(2,991)	(5,053)
Profit for the year	<u>33,445</u>	<u>22,347</u>	<u>62,795</u>	<u>6,271</u>	<u>16,856</u>
Profit for the year attributable to:					
Owners of the Company	38,356	27,273	63,953	9,778	19,885
Minority interests	(4,911)	(4,926)	(1,158)	(3,507)	(3,029)
	<u>33,445</u>	<u>22,347</u>	<u>62,795</u>	<u>6,271</u>	<u>16,856</u>
Proposed final dividend	<u>8,922</u>	<u>5,948</u>	<u>17,374</u>	<u>–</u>	<u>–</u>
Earnings per share:					
– basic	<u>RMB1.72 cents</u>	<u>RMB1.23 cents</u>	<u>RMB2.82 cents</u>	<u>RMB0.43 cents</u>	<u>RMB0.88 cents</u>
– diluted	<u>RMB1.72 cents</u>	<u>RMB1.22 cents</u>	<u>RMB 2.74 cents</u>	<u>RMB0.43 cents</u>	<u>RMB0.88 cents</u>

(ii) Consolidated Balance Sheet

	As at 31 December			As at 30 June
	2009	2008	2007	2010
	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)
Non-current assets				
Land use rights	46,763	47,745	20,152	46,224
Property, plant and equipment	223,043	154,212	162,235	224,917
Investment properties	66,314	70,186	–	64,378
Intangible assets	787	1,780	3,475	490
Exploration and evaluation assets	29,369	–	–	29,369
Deposit for acquisition of subsidiaries	48,400	48,400	–	47,850
Deposit for acquisition of plant and machinery	628	19,538	–	628
	<u>415,304</u>	<u>341,861</u>	<u>185,862</u>	<u>413,856</u>
Current assets				
Inventories	35,235	65,384	36,752	41,511
Land use rights	1,005	1,005	435	1,005
Trade and other receivables	86,241	63,357	77,291	73,404
Investments held for trading	14,908	63,601	–	13,462
Deposits with banks	413,000	–	–	415,500
Cash and cash equivalents	234,155	591,937	792,914	218,670
	<u>784,544</u>	<u>785,284</u>	<u>907,392</u>	<u>763,552</u>
Current liabilities				
Trade and other payables	85,354	53,742	51,154	68,401
Income tax payable	6,486	6,740	7,225	4,155
	<u>91,840</u>	<u>60,482</u>	<u>58,379</u>	<u>72,556</u>
Net current assets	<u>692,704</u>	<u>724,802</u>	<u>849,013</u>	<u>690,996</u>
Total assets less current liabilities	<u>1,108,008</u>	<u>1,066,663</u>	<u>1,034,875</u>	<u>1,104,852</u>

	As at 31 December			As at
	2009	2008	2007	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)
Non-current liabilities				
Borrowings	113,517	112,056	110,678	114,189
Deferred tax liability	3,251	3,318	–	3,284
	<u>116,768</u>	<u>115,374</u>	<u>110,678</u>	<u>117,473</u>
Net assets	<u>991,240</u>	<u>951,289</u>	<u>924,197</u>	<u>987,379</u>
Capital and reserves				
Share capital	47,018	46,426	46,426	47,018
Reserves	<u>884,178</u>	<u>845,456</u>	<u>828,709</u>	<u>885,044</u>
Equity attributable to:				
Owners of the Company	931,196	891,882	875,135	932,062
Minority interests	<u>60,044</u>	<u>59,407</u>	<u>49,062</u>	<u>55,317</u>
Total equity	<u>991,240</u>	<u>951,289</u>	<u>924,197</u>	<u>987,379</u>

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

The audited consolidated financial statements of the Group for the two years ended 31 December 2009 together with the relevant notes to the accounts are set out in pages 38 to 92 of the annual report of the Company for the year ended 31 December 2009, which can be accessed on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.centurysunshine.com.hk). The auditors' reports issued for each of the years ended 31 December 2008 and 2009 are not qualified.

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR EACH OF THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2009 AND THE SIX MONTHS ENDED 30 JUNE 2010

A. FOR THE YEAR ENDED 31 DECEMBER 2007

TURNOVER

The Group's total sales amounted to RMB322,102,000 in 2007, representing an increase of 3% from 2006. It was mainly attributable to the introduction of new business line of compound fertilizers. The Group currently engages in three business lines, namely organic fertilizers, compound fertilizers and bio-pesticides. The following tables set out the sales of each business line for both 2006 to 2007:

RMB'000	2007	2006	Change
Organic fertilizers	243,028	301,026	-19%
Compound fertilizers	67,805	—	—
Bio-pesticides	11,269	11,669	-3%
	<u>322,102</u>	<u>312,695</u>	<u>+3%</u>

Organic fertilizers

The significant drop in sales of organic fertilizers was mainly attributable to the decrease in production capacity of organic fertilizers due to the degeneration of production bacteria which caused our production output significantly lower than our normal capacity. The problem of bacteria degeneration occurred in July 2007 and therefore, the second-half turnover of organic fertilizer was severely affected. When comparing to the same period of last year, the sales of organic fertilizers for the second half of 2007 decreased by 39% to RMB106,866,000. However, the production of organic fertilizers has stabilized at this current level. During the year, the total sales volume of organic fertilizers amounted to approximately 130,000 tons and it accounted for 75% of the total sales.

Compound fertilizers

Compound fertilizers are composite of different kinds of chemical fertilizers in order to provide balanced nutrients to the plantation. The fertilizer market in the PRC is huge with the annual sales of over RMB400 billion in which the compound fertilizers accounted for approximately 30%. The Group acquired a compound fertilizers facility in July 2007 through a 51%-owned subsidiary in the Jiangsu province. Jiangsu province is traditional

agricultural base in the northern PRC. The Group's compound fertilizers were well received by the market and accounted for about 21% of the Group's total sales in 2007.

Bio-pesticides

The Group maintained bio-pesticides as a supplemental products and services to its customers. The sales of bio-pesticides recorded a slight decrease of 3% and accounted for about 4% of the Group's total sales in 2007.

PRODUCTION CAPACITY

Organic fertilizers

The degeneration of production bacteria caused the production capacity of organic fertilizer drop significantly in the second half of 2007. Given that no significant improvement on our current production technology, our annual production capacity of organic fertilizer decreases by 42% from 155,000 tons to approximately 90,000 tons. The Group is now searching for replacement bacteria and developing new technologies to resolve the problem.

Compound fertilizers

The designed annual capacity of Jiangsu Plant was about 200,000 tons of compound fertilizers. After the completion of modification of existing machinery and installation of new production facilities in 2009, the annual capacity will increase to approximately 300,000 tons of compound fertilizers.

We are actively seeking for suitable acquisition targets of compound fertilizers and organic fertilizers in the PRC and Australia. We hope to complete one to two acquisitions in 2008. However, these activities are currently in preliminary stages, no agreements whatsoever have been entered into between the Company and any of the potential candidates.

GROSS MARGIN

The average gross margin in 2007 significantly dropped to about 38% from 51% in 2006, which was mainly attributable to the introduction of compound fertilizers and the longer production cycle of organic fertilizers caused by the degeneration of bacteria. Compound fertilizers have lower average margin than organic fertilizers. Our compound fertilizers have an average gross margin of less than 10%. Meanwhile, the average gross margin of our organic fertilizers decreased by 6% in 2007 due to the longer production cycle.

EXPENSES

Selling and marketing cost remained stable at the level of approximately RMB11,000,000 in which advertising, salary and transportation cost accounted for 45%, 42% and 9% respectively.

Administrative expenses amounted to RMB42,813,000, representing an increase of 81% from last year. It was mainly attributable to the increase in net exchange loss from RMB2,296,000 in 2006 to RMB11,960,000 in 2007 due to the continuous appreciation of Renminbi against the Group's assets denominated in foreign currencies. Due to the failure to commence operations of the Yunxiao Plant, administrative expenses included its impairment loss of RMB5,128,000 and contracts termination cost of RMB4,775,000. Without taking into account of these expenses, administrative expenses of 2007 recorded a slight decrease of 2%.

NET MARGIN

Due to the significant decrease in gross margin and increase in administrative expenses, the net profit for the year of 2007 only amounted to RMB63,953,000, representing a decrease of 50% from last year and the net profit margin decreased to 20% from 41% in 2006.

LIQUIDITY, GEARING AND SOURCE OF FINANCE

The Group continued to maintain a strong financial position with net cash of RMB682,236,000. As at 31 December 2007, cash and bank balances of the Group increased by RMB408,087,000 to RMB792,914,000 (2006: RMB384,827,000).

As at 31 December 2007, the Group has a long term borrowings of RMB110,678,000 (2006: 110,482,000) and the net current assets was approximately RMB848,578,000 (2006: RMB400,083,000). The Group's gearing ratio as measured by borrowings over net asset value was 12% in 2007 (2006: 25%).

The existing cash resources together with the steady cash flows generated from operations are sufficient to meet its business requirements.

EXCHANGE RATE RISK MANAGEMENT

The Group's exchange rate risk mainly arises from our assets denominated in foreign currency. There is no effective way in the market to hedge or reduce the exchange rate risk arising from the continuous appreciation of Renminbi. We seek to reduce the exchange rate risk by matching the sources of utilization of our funds. During the year, we made certain shareholders' loan to subsidiaries and increased capital investments in the PRC so as to reduce the total amount of approximately HK\$187 million in our cash balances denominated in Hong Kong dollars and increase our Renminbi assets of approximately RMB182 million. The Group expects that the Renminbi will continue to appreciate in the foreseeable future and the Group's exchange rate risk will continue to arise. The Group will look for other alternatives to effectively minimize the exchange rate risk.

CREDIT RISK MANAGEMENT

Along with the significant increase in turnover and accounts receivable, the Group was fully aware of the credit risk exposure of our customers. The Group strictly followed the “client account management procedures” which was established in 2004. The procedures required and ensured each client account was maintained and kept tracked periodically according to the previous transactions records and credit history of each customer. The Group specified and assigned to each customer a series of credit measures such as credit ratio, credit period, credit rating, credit terms, and guarantee. The client account management procedures were effective to control the credit risk of the Group. As at 31 December 2007, no bad debt of the Group was recorded.

PLEDGE OF ASSETS

As at 31 December 2007, the Group did not have any charges or pledges on its assets.

CAPITAL COMMITMENTS

As at 31 December 2007, the Group did not have any material capital commitments apart from those disclosed in Note 25 to the financial statements.

SIGNIFICANT INVESTMENT

Save for the Company’s investment in its subsidiaries, the Group did not have any significant investment during the year.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not have any material contingent liabilities.

CAPITAL STRUCTURE

As at 1 January 2007, the issued share capital of the Company were HK\$40,940,500, divided into 2,047,025,000 Shares.

On 23 February 2007, the Company completed a top-up placing of Shares and therefore, the Company allotted and issued 250,000,000 new Shares at a price of HK\$1.88 per Share.

On 9 July 2007, a total of 30,000,000 options were exercised at the exercise price of HK\$0.294 each and the Company subsequently allotted and issued 30,000,000 new Shares to the options holders.

The Company repurchased an aggregate of 109,105,000 Shares on The Stock Exchange of Hong Kong Limited at the average purchase price of

HK\$0.502 per Share from 12 November 2007 to 20 November 2007 under the general mandate granted by the shareholders of the Company in the annual general meeting of the Company held on 30 April 2007.

On 17 December 2007, a total of 1,500,000 options were exercised at the exercise price of HK\$0.126 each and the Company subsequently allotted and issued 1,500,000 new Shares to the options holders.

As at 31 December 2007, the issued share capital of the Company were HK\$44,388,400, divided into 2,219,420,000 Shares.

HUMAN RESOURCES

As at 31 December 2007, the Group had around 640 employees. Salaries are determined by reference to prevailing market rates. Staff benefits include medical protection, pension, discretionary bonus and share options. The Group has not experienced any labour disputes or significant changes in its headcount which may undermine its normal operation. The Directors consider that the Group enjoys a good relationship with its staff.

B. FOR THE YEAR ENDED 31 DECEMBER 2008

TURNOVER

The domestic fertilizers market underwent substantial consolidation due to the outbreak of financial crisis during the fourth-quarter of 2008, under which the confidence of producers, distributors and retailers towards the future has all been shaken. In the fourth-quarter, the sales of the Group, particularly the sales of compound fertilizers, experienced a significant drop while the selling price has also declined. Nevertheless, the total sales of the Group in 2008 amounted to RMB386,782,000, representing an increase of 20% over 2007, which was mainly derived from the sales of compound fertilizers and raw materials.

	2008 RMB'000	2007 RMB'000	Change
Organic fertilizers	176,594	243,028	-27%
Compound fertilizers	143,942	67,805	+112%
Biological pesticides	4,489	11,269	-60%
Raw materials	61,757	—	—
	<u>386,782</u>	<u>322,102</u>	<u>+20%</u>

Organic fertilizers

The impact of financial crisis on organic fertilizers sector was relatively lenient, which was evidenced by no significant adjustment on the selling price and existence of sizeable demand. However, distributors would depend on overall market condition as well as funding requirement to align their sell and purchase strategies. As the Group's production output of organic fertilizers dropped, it directly cast adverse impact on the sales of organic fertilizers of the Group in 2008. In the fourth-quarter of 2008, the Group successfully expanded the production output of, as well as increased the sales in, microbial compound fertilizers, from which the effect arising from decrease in production output of organic fertilizers was partly set off. The sales of the Group's organic fertilizers in 2008, decreased by 27% when compared with the figure of last year, accounted for 46% of the total sales. The Group anticipated that, in a certain period of time, the production output of organic fertilizers will maintain at the same level as 2008 or slightly increase.

Compound fertilizers

It takes more than one year for the Group to penetrate into the compound fertilizers market in the north of China. With the ever-growing sales network and persistent increase in average sales orders from customers, the Group remarkably doubled its sales in compound fertilizers in 2008 and recorded RMB143,942,000, representing 37% of the total sales. Compound fertilizers sector was hit hard during the fourth-quarter of 2008. While the selling price decline significantly that caused the Group's compound fertilizers business recorded operating loss in the fourth-quarter, inventories also showed signs of impairment towards the end of 2008. Despite the aforesaid, the Group believes that there is still huge demand for fertilizers in the domestic market. As fertilizers are the necessity for agricultural production, such interim market consolidation would well behind one day, and with the strong support from the PRC government towards agricultural industry, the Group still believes in a prosperous business outlook for compound fertilizers.

Raw materials

Apart from principally engaged in the production and sales of compound fertilizers, the Group's Jiangsu plant also produced sulphuric acid, being one of the main raw materials used in the production of compound fertilizers. For the sake of increasing revenue and raising equipment utilization, the Group sold the remaining sulphuric acid to the market. However, the Group anticipated that the sales of sulphuric acid will have fluctuation which depends on the sales of compound fertilizers. Selling of sulphuric acid have been contributing revenue to the Group, but following the financial crisis, the demand and price of sulphuric acid in the fourth-quarter of 2008 decreased sharply to the extent that out of the market expectation, making the Group's raw materials business recorded an overall operating loss in 2008. The sales of the Group's raw materials in 2008 amounted to RMB61,757,000, representing 16% of the total sales.

Magnesium

The Group tapped into the magnesium industry by acquiring a subsidiary in Jilin Province, the PRC in September 2008. Such magnesium project, which is still in developing stage, is expected to complete and put into production in the fourth-quarter of 2009, thus has not contributed any profit to the Group so far. The Group is eagerly looking forward to its magnesium business, mainly due to (i) the continuous increase in the market demand of magnesium products over the past few years shows a promising prospect of market acceptance; (ii) the PRC, being one of the countries that possess enormous amount of magnesium mineral resources, is having competitive edge over resources availability; and (iii) the PRC government has expressly proposed magnesium products as the focal point of development, therefore enabling magnesium to enjoy preferential treatment in terms of policies.

EXPENSES

In 2008, selling and marketing costs amounted to approximately RMB7,770,000, representing a decrease of 28% from last year, which is mainly attributable to the drop in advertising expenses. Advertising, salary and transportation cost accounted for 2%, 50% and 24% of the selling and marketing costs respectively.

In 2008, administrative expenses amounted to RMB45,556,000, representing an increase of 6% from last year. Administrative expenses comprised of the net exchange losses of RMB17,087,000 due to the appreciation of Renminbi against the Group's assets denominated in foreign currencies, salary and allowance of RMB5,780,000, professional fees of RMB1,947,000 as well as depreciation and amortization of RMB7,341,000.

MARGINS

The consolidated gross profit in 2008 amounted to RMB59,257,000, representing a decrease of 51% from last year and the consolidated gross profit margin dropped from 38% in last year to 15%. Taking into account the other revenue, including the investment gain and the fair value gain, the profit attributable to the equity holders of the Company for the year of 2008 would be RMB27,273,000, representing a decrease of 57% from last year and the net profit margin decreased to 7% from 20% in 2007.

LIQUIDITY, GEARING AND SOURCE OF FINANCE

The Group maintained a sound financial position with net cash of RMB479,881,000. As at 31 December 2008, cash and bank balances of the Group amounted to RMB591,937,000 (2007: RMB792,914,000).

As at 31 December 2008, the Group has long term borrowings of RMB112,056,000 (2007: RMB110,678,000) and the net current assets was approximately RMB724,655,000 (2007: RMB849,013,000). The Group's gearing ratio as measured by borrowings over net asset value was 12% in 2008 (2007: 12%).

The existing cash resources together with the steady cash flows generated from operations are sufficient for the Group to meet its business requirements.

EXCHANGE RATE RISK MANAGEMENT

The Group's exchange rate risk mainly arises from our assets denominated in foreign currency. There is no effective way in the market to hedge or reduce the exchange rate risk arising from the fluctuation of Renminbi. We seek to reduce the exchange rate risk by matching the sources of utilization of our funds. In 2008, the Group continued to increase its capital investment in the PRC. If Renminbi continues to appreciate, the Group's exchange rate risk will continue to arise. The Group will look for other alternatives to effectively minimize the exchange rate risk.

CREDIT RISK MANAGEMENT

Along with the significant increase in turnover in 2008, the Group was fully aware of the credit risk exposure of our customers. The Group strictly followed the "client account management procedures" which was established in 2004. The procedures required and ensured each client account was maintained and kept tracked periodically according to the previous transactions records and credit history of each customer. The Group specified and assigned to each customer a series of credit measures such as credit ratio, credit period, credit rating, credit terms, and guarantee. The client account management procedures were effective to control the credit risk of the Group. As at 31 December 2008, no bad debt of the Group was recorded.

PLEDGE OF ASSETS

As at 31 December 2008, the Group did not have any charges or pledges on its assets.

CAPITAL COMMITMENTS

As at 31 December 2008, the Group did not have any material capital commitments apart from those disclosed in note 32 to the financial statements.

SIGNIFICANT INVESTMENT

In September 2008, the Group acquired certain interests in an enterprise based in Baishan (a city in Jilin Province, the PRC) with the aim to tap into the magnesium industry. The Group acquired 80% of interests in the entire issued share capital of Fullocean Group Limited at a consideration of RMB36,168,000. Fullocean Group Limited indirectly holds 60% equity interests in Baishan City Tianan Magnesium Resources Co., Ltd.

In October 2008, the Group increased its equity interest in Jiangsu Azureblue Technology Development Co., Limited, a non wholly-owned subsidiary of the Company from 51% to 83.2% at a consideration of RMB32,200,000. Jiangsu Azureblue Technology Development Co., Limited is engaged in the production and sales of compound fertilizers and raw materials in the PRC.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any material contingent liabilities.

CAPITAL STRUCTURE

As at 31 December 2008, the issued share capital of the Company were HK\$44,388,400, divided into 2,219,420,000 Shares of HK\$0.02 each.

HUMAN RESOURCES

As at 31 December 2008, the Group employed approximately 600 employees (2007: approximately 640 employees). The Group determined their salaries by reference to individual performance, working experience and prevailing market conditions. Staff benefits include medical protection, regular contribution provident fund, discretionary bonus and employee share option scheme. The Group has not experienced any labour disputes or significant changes in its headcount which may undermine its normal operation. The Directors consider that the Group enjoys a good relationship with its staff.

C. FOR THE YEAR ENDED 31 DECEMBER 2009**TURNOVER**

Under the influence of the global financial crisis, the PRC government has put into place a series of economic stimulus package in 2009 in order to boom the domestic demand and stabilize the domestic economy and the country's livelihood. Notwithstanding this, domestic enterprises continued to face a lot of difficulties in business operation. Slack market demand, shrinking prices and fluctuations in raw material prices have placed many enterprises in peril, with operating losses. The Group timely took effective measures in 2009 and all these measures have boosted customers' loyalty in the Group's products, while strengthening the control over inventory levels and costs. Thanks to these initiatives, the Group maintained a growth in the business and improved the overall profitability.

Turnover of Agriculture-Related Products

In 2009, the Group's turnover from agriculture-related products business grew by 15% over 2008 to RMB373,877,000, representing 97% of the total turnover. The sales of biological pesticides accounted for less than 1% of the sales of the agriculture-related products business. The sales of agriculture-related products were mainly generated from the fertilizer category. The Group produced two major categories of fertilizers. Organic fertilizers and compound fertilizers, accounted for 45.6% and 54.2% of the sales of the agriculture-related products respectively. This year, the increase in the average selling price of organic fertilizers by 5% was due to the significant surge in the sales of microbial compound fertilizer products, while the decrease in the average selling price of compound fertilizers by 32% was mainly due to the fact that the market selling prices have been hovering at the bottom under a depressing compound fertilizer market in 2009. As a result, the average selling price of the fertilizers of the Group dropped by 14% to approximately RMB1,900 per tonne.

The Group only recorded raw material sales of RMB11,432,000 in 2009, representing a sharp decrease of 81% over 2008, and merely making up of 3% of the total turnover. During the year, the raw materials business was mainly the sales of sulphuric acid. Its average selling price in 2009 was RMB250 per tonne, representing a substantial fall of 76% over 2008. Since the rampage of the global financial crisis at the end of 2008, the domestic sulphuric acid market has shown no signs of improvement. The demand remained sluggish. The lowest selling price in 2009 was 94% lower than the selling price at its peak in 2008. Under a situation where there was no drastic reduction in production costs, most producers faced challenging operations and experienced operating losses or production suspension. Despite of a slight improvement in market demand for sulphuric acid in the fourth quarter of

2009, the selling price was only marginally improved. It is expected that the Group's sulphuric acid business will only improve along with the gradual revival of the market.

The construction of the Group's magnesium plant in Jilin Province, the PRC has been substantially completed. Trial production is scheduled to be conducted in the second quarter of 2010. Magnesium business is expected to be put into complete commission, and to bring contribution to the Group's turnover in 2010. Accordingly, the magnesium business has not yet contributed any earnings to the Group in 2009. Nevertheless, given a rising market demand for magnesium ingots and magnesium alloy products and a supportive backup from the national policies, the Group believes and is confident that the magnesium business is set to develop in a bright prospect.

GROSS PROFIT

In general, the consolidated gross profit of the Group in 2009 amounted to RMB71,046,000, representing an increase of 20% over 2008. The consolidated gross profit margin rebounded to 18% from 15% last year due to the soar in organic fertilizer margins and the decrease in overall production costs.

EXPENSES

During the year, a double-digit growth was recorded for the agriculture-related products business of the Group. Transportation cost, salary and commission increased accordingly, attributing to an increase in selling and marketing costs by 38% to RMB10,722,000 in 2009 over 2008. Advertisement, salary and commission fee and transportation cost accounted for 6%, 46% and 26% of the selling and marketing costs respectively.

The administrative expenses were approximately RMB33,694,000 in 2009, representing a sharp decrease of 26% over 2008. During the year, the Group did not incur any net exchange losses while a net exchange losses of RMB17,087,000 of the Group was recorded in 2008. If excluding the influence of such exchange difference, the administrative expenses increased by 18%. Salary and allowance, professional fees, impairment losses and depreciation and amortization accounted for 23%, 5%, 11% and 24% of the administrative expenses respectively.

OTHER INCOME AND GAINS

The other income and gains of the Group in 2009 was RMB23,377,000 which mainly included gains on disposal of investments of RMB2,600,000, net exchange gains of RMB5,310,000 and change in fair value of investments of RMB5,399,000.

MARGIN

Profits attributable to the owners of the Company surged by 41% to RMB38,356,000 compared with 2008. Net profit margin increased to 10% from 7% in 2008.

LIQUIDITY, GEARING AND SOURCE OF FINANCE

In 2009, the Group's liquidity was mainly derived from cash flows of operations. As at 31 December 2009, cash and bank balance of the Group amounted to approximately RMB647,155,000 (2008: RMB591,937,000).

As at 31 December 2009, the Group had long term borrowings of RMB113,517,000 (2008: RMB112,056,000) and the net current assets were approximately RMB692,704,000 (2008: RMB724,802,000). The Group's gearing ratio as measured by borrowings over net asset value was 11% in 2009 (2008: 12%).

The existing cash resources with steady cash flows generated from operations are sufficient for the Group to meet its business requirements.

EXCHANGE RATE RISK MANAGEMENT

The Group's exposure to exchange rate risk was mainly derived from the assets denominated in foreign currencies. There is no effective way in the market to hedge or reduce the exchange rate risk arising from the fluctuation of Renminbi. We seek to reduce the exchange rate risk by matching the sources of utilization of our funds. In 2009, the Group continued to increase its capital investments in the PRC. Should Renminbi continue to appreciate, the Group will continue to expose to exchange rate risk. The Group will look for other alternatives to effectively minimize the exchange rate risk.

CREDIT RISK MANAGEMENT

The Group has always been aware of the credit risk exposure of our customers. The Group strictly followed the "client account management procedures". The procedures required and ensured all client accounts were maintained and kept track of periodically according to the previous transaction records and credit history of each customer. The Group specified and assigned to each customer a series of credit measures such as credit ratio, credit period, credit rating, credit terms, and guarantee. The client account management procedures were effective to control the credit risk of the Group. As at 31 December 2009, no bad debt of the Group was recorded.

PLEDGE OF ASSETS

As at 31 December 2009, the Group did not have any charges or pledges on its assets.

CAPITAL COMMITMENTS

As at 31 December 2009, the Group did not have any material capital commitments apart from those disclosed in note 34 to the financial statements.

SIGNIFICANT INVESTMENTS

A non-wholly owned subsidiary of the Company, Baishan City Tianan Magnesium Resources Company Limited entered into an agreement on 18 December 2009 whereby Baishan City Tianan Magnesium Resources Company Limited agreed to acquire the exploration right of a dolomite mine in Jilin province, the PRC at the cash consolidation of RMB25.9 million. Details of which was disclosed in the Company's announcement dated 24 December 2009.

Save for the above and the Company's investments in its subsidiaries, the Group did not have any material investment during the year.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any significant contingent liabilities.

CAPITAL STRUCTURE

As at 31 December 2009, the issued share capital of the Company were HK\$45,061,400, divided into 2,253,070,000 Shares of HK\$0.02 each.

HUMAN RESOURCES

As at 31 December 2009, the Group employed approximately 630 employees (2008: approximately 600). The Group determined their salaries with reference to their performance, working experience and prevailing market conditions. Staff benefits include medical protection, regular contribution provident fund, discretionary bonus and employee share option scheme. The Group has not experienced any labour disputes or significant changes in its headcount which may undermine its normal business operation. The Directors consider that the Group enjoys a good relationship with its staff.

D. FOR THE SIX MONTHS ENDED 30 JUNE 2010***FINANCIAL AND BUSINESS REVIEW***

During the six months ended 30 June 2010, the total turnover of the Group amounted to RMB180,276,000, representing a decrease of approximately 13% compared with the corresponding period in 2009.

In the first half year, some provinces in China suffered from serious drought, affecting the demand of agriculture related products and caused adverse effect to the market. Accordingly, the Group made corresponding adjustments to the pricing strategy so as to maintain the market share. In addition, due to the reconstruction of the plant for fertilizer production in Jiangsu province to enlarge production capacity, fertilizer production and sales dropped approximately 15% and approximately 29% respectively compared to the corresponding period of last year, while the sales revenue decreased by approximately 36%. But as production capacity increases and production planning becomes more efficient, the Group believes that better performance will be delivered in the second half of the year.

Our raw materials are available for external sales after satisfied the need for production of fertilizers. Since there is a fall in the raw materials used in fertilizer production, the sales and sales revenue recorded a significant surge by approximately 285% and approximately 495% respectively compared to the corresponding period of last year.

However, as more competitors has entered the market during the period, our business in Jiangxi and Fujian is challenged, the Group shall make necessary adjustments in respect of price strategy, so as to strengthen and expand the market share. During the period under review, the production and sales of microbial compound fertilizer products have grown by approximately 14% and approximately 11% respectively, but due to price strategy adjustment, sales revenue has declined by approximately 10% compared with corresponding period of last year.

The Group has launched several new pesticide products in the first half of the year, but as the overall average price has decreased, the sales dropped by approximately 17% compared with the same period of last year.

In addition, mainly due to fair value change in investments classified as held for trading, the Group has recorded RMB3,309,000 net loss on investments held for trading during the period under review, while we benefited from fair value gains in the corresponding period of last year. During the first half of 2010, the Group recorded a net exchange loss of RMB1,223,000, compared with a net exchange gain of RMB3,159,000 in same period of last year. Such change was due to the appreciation of Renminbi against other foreign currencies during the period under review. Other

income and gains of the Group amounted to RMB6,686,000, representing an increase of approximately 11% compared to the same period of last year. The total operating expenses were RMB19,641,000, decreased by approximately 3%, among which the selling and marketing costs amounted to RMB5,017,000, which is comparable to last year, and administrative expenses were RMB14,624,000, representing a decrease of approximately 4%.

Sales and marketing costs

During this period, the transportation costs and the salaries and commission fees were comparable to that of the same period of last year. During the period, the transportation cost increased by approximately 17%, accounted for approximately 38% of the sales and marketing costs. The salaries and commission fees decreased by approximately 20%, accounted for approximately 40% of the sales and marketing costs.

Administrative expenses

During the period, administrative expenses was reduced by approximately 4% to RMB14,624,000. Approximately 40% and 31% of the administrative expenses were derived from the depreciation and amortization expenses and the salary costs respectively.

Profit attributable to owners of the Company for the first half of 2010 decreased by approximately 51% to RMB9,778,000 when compared to the same period in 2009.

LIQUIDITY, GEARING AND FINANCIAL RESOURCES

As at 30 June 2010, the net current assets of the Group were approximately RMB690,996,000, in which cash and cash equivalents was approximately RMB218,670,000.

The Group has been granted a long term loan of RMB120,000,000 by International Finance Corporation in November 2006. Such loan bears interest at 5.38% per annum and is due for one bullet payment in November 2013.

As at 30 June 2010, the Group's gearing ratio as measured by the total borrowings over total equity was approximately 12%.

Management had carefully considered the liquidity of the Group and ensures that the Group has sufficient liquid resources to enable the Group to meet in full its business requirements and its financial obligations.

FOREIGN EXCHANGE RISK

The Group's assets, borrowings and major transactions are mainly denominated in Renminbi. The Group's exposure to exchange rate risk mainly come from the Group's assets that denominated in foreign currencies. We seek to reduce the exchange rate risk by matching the sources of our funds with its utilization to avoid the impact arising from fluctuation of exchange rate. As the liquidity of Renminbi increases over time, there are certain instruments come into existence in the market which may hedge against or reduce the fluctuations of Renminbi against other foreign currencies. The Group will endeavour to look for effective methods to minimize its exchange rate risk.

BUSINESS OUTLOOK*Agriculture-related products business*

Being a major agricultural country, the People's Republic of China (the "PRC") is having a population largely composed of peasants, thus providing steady job opportunities to them and developing rural economy have become one of the vital policies of the PRC. In this regard, the agricultural development in the PRC is having enormous potential in light of the tremendous support from the state, arousing huge market demand towards agriculture-related products.

Riding on its predominance in its firm and long term client base, excellent product quality and brand awareness, the Group believes that agriculture-related products business is set to enjoy sustainable steady development and remain a major revenue source to the Group.

Magnesium business

Construction of the Group's production plant in Baishan City of Jilin Province, the PRC is now completed. The plant has an annual production capacity of 10,000 tonnes of magnesium ingots and magnesium alloy products. Currently, it is undergoing completion inspection and has entered the load testing stage. However, basic facilities like local roadway and power supply were pending renovation after the persistent rainstorm and flooding occurred in Baishan City of Jilin Province during the summer, the time needed for testing work was prolonged. It is expected that trial production will commence in the fourth quarter of 2010.

The Group believes that the factory, configured advanced production equipment and technology, has ranked itself at a leading position in the industry. Magnesium and magnesium alloy products have been widely used in a diverse variety of aspects including aerospace, automotive, electronic products and medical and civil use, and are known as the green engineering materials of the most massive development potentials in this century. They are blessed with very promising market prospects. The PRC has become the world's largest producer and exporter of magnesium. According to China's

11th Five-Year Plan, the development and industrialization of magnesium alloy products fall within the “preferred development” category. Invigorated by support from the national policies and rapid growth in market demand, magnesium and magnesium alloy products are set to become a sustainable industry.

Serpentine business

Pursuant to the memorandum of understanding entered into on 19 December 2008, the Group intended to acquire a serpentine mine located in Jiangsu Province, the PRC from an independent third party. Such mineral asset has serpentine mineral resources reserves of not less than 60 million tonnes. To facilitate various professional institutions to conduct due diligence and complete the related process for acquisition as soon as possible, the Group signed a supplemental agreement with the vendor on 22 December 2009 to defer the long stop date of the acquisition to 30 September 2010.

Serpentine is a mineral resource of versatile usage, containing silicon and magnesium as its main components. At present, serpentine is mainly used in extracting magnesium oxide, producing calcium, magnesium and phosphate fertilizers as well as metallurgical flux in the PRC, and is a raw material for fertilizers production and an indispensable auxiliary raw material in steel making.

The successful completion of this acquisition helps securing the upper stream raw materials for the Group in magnesium smelting and fertilizers production while allowing the Group to reap benefits from the continual development of iron and steel industry of the PRC. As such, the Group believes this acquisition can diversify its business to a further extent and create synergy effects with existing businesses, enabling future results and investment return to blossom.

Financial Business

On 18 June 2010, the Group entered into a sale and purchase agreement with an independent third party to acquire the entire interest of Sunshine Partners Financial Holdings Limited (“Sunshine Partners”). Sunshine Partners is an integrated financial group that engaged in businesses such as dealing in securities, corporate finance, sponsorship listing, assets management and securities consultant in Hong Kong through its subsidiaries, namely Partners Capital Securities Limited, Partners Capital International Limited and Sunshine Asset Management (HK) Limited, and holding type 1, type 4, type 6 and type 9 licences issued by the Securities and Futures Commission. Partners Capital (Singapore) Private Limited, another subsidiary of Sunshine Partners, possesses of a licence issued by Monetary Authority of Singapore and engages in corporate finance business in Singapore. The business focus of Sunshine Partners is to provide full range of quality service to those outstanding small and medium sized listing companies. It has recorded more remarkable showings in Hong Kong and Singapore markets in recent years.

With the continual development of the PRC economy, Hong Kong's status as a financial centre is set to be more prominent, constituting a promising future for the financial service sector. Looking to the future, the surging trend in the demand from the PRC enterprises and people towards financial services, together with the Group's extensive network in the PRC as well as our greater brand awareness, will facilitate Sunshine Partners to exploit its financial business in Mainland China and capture the opportunities arising from the rapid development of the PRC financial market. The Group will be under stricter regulation upon its acquisition of Sunshine Partners. In terms of business, Sunshine Partners, apart from developing its financial business, will exert its expertise in the Group's project acquisition, corporate finance and assets management aspects.

Business expansion

The Group firmly believes in "Strong Foundation Enables Expansion; Stable Return Comes From Greater Scale" and strives to achieve steady development by identifying suitable business opportunities. New business opportunities enable the Group reaching further heights and expanding sources of income while diversifying the potential risks of each industry, creating steadier and higher return for shareholders.

4. INDEBTEDNESS

At the close of business on 31 July 2010, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following indebtedness:

	RMB'000	RMB'000
The Group		
Borrowings (Note i)		120,000
The Target Group		
Amount due to the sole director (Note ii)	13,821	
Amount due to immediate holding company (Note ii)	44	
Bank borrowings (Note iii)	20,000	33,865
		<u>153,865</u>

Notes:

- (i) The Group had outstanding borrowings from International Finance Corporation (“IFC”) of approximately RMB120,000,000 which is secured by (i) corporate guarantee given by the Company; and (ii) pledges of 244,578,000 shares in the Company, as adjusted for the effect of the share subdivision, owned by Alpha Sino International Limited (“Alpha Sino”), the controlling shareholder. Pursuant to the loan agreement, the Group is required to place bank deposits of RMB32,000,000, RMB64,000,000 and RMB88,000,000 to IFC as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. As at 31 July 2010, such deposits were not yet placed to IFC. In addition, Chi Wen Fu, a director and controlling shareholder of the Company (through his 83.74% interest in Alpha Sino), has given an undertaking to IFC to maintain a minimum level of shareholding in the Company.
- (ii) The amounts are unsecured, interest-free and repayable on demand.
- (iii) The amount is interest bearing, repayable within one year and secured by the Target Group’s certain property, plant and equipment and prepaid lease payments.

Capital commitment

As at 31 July 2010, the Group had the capital commitment for the acquisition of property, plant and equipment which were contracted but not provided for totaling approximately RMB3,977,000.

As mentioned in the announcement issued by the Company on 18 June 2010, the Group entered into a conditional sale and purchase agreement to acquire the entire issued share capital of Sunshine Partners Financial Holdings Limited in total consideration of HK\$87,750,000 (approximately RMB76,343,000) which shall be satisfied as to (i) HK\$20,000,000 (approximately RMB17,400,000) by way of cash; and (ii) HK\$67,750,000 (approximately RMB58,943,000) by way of issuance of up to a maximum of 225,833,333 new shares of the Company.

Contingent liabilities*Environmental contingencies*

The Target Group's operations are regulated by various laws and regulations. Laws and regulations protecting the environment and wild life have generally become more stringent in recent years and could become more stringent in the future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Target Group to violations to existing conditions attached to the licence whether or not caused or known by the Target Group. The financial position of the Target Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors of the Company and the sole director of Gold Strategy are not aware of any environmental liabilities as at 31 July 2010. The directors of the Company and the sole director of Gold Strategy are also not aware of any violation to existing conditions attached to the Target Group's serpentine mining licence, or subject to any significant costs, expenses, penalties and liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have any loan capital issued and outstanding, or authorized or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities at the close of business on 31 July 2010.

Foreign currency amounts have been translated into RMB at the approximate exchange rates prevailing at the close of business on 31 July 2010.

5. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

6. WORKING CAPITAL

In the absence of unforeseen circumstances, the Directors are of the opinion that taking into account its internal resources and the existing available credit facilities of the Enlarged Group and upon the completion of the Acquisition, the Enlarged Group has sufficient working capital for 125% of its present requirements, that is for at least the next twelve months from the date of this circular.

1. FINANCIAL INFORMATION OF THE TARGET GROUP

1.1 ACCOUNTANTS' REPORT ON THE TARGET GROUP



SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

The Directors
Century Sunshine Group Holdings Limited
Unit 3907, 39/F., Cosco Tower
183 Queen's Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding Gold Strategy Investments Limited ("Gold Strategy") and its subsidiaries (hereinafter collectively referred to as the "Target Group"), including the consolidated statements of financial position of the Target Group as at 31 December 2007, 2008 and 2009 and 31 March 2010, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows and the notes thereto of the Target Group for each of the years ended 31 December 2007, 2008, 2009 and the three months ended 31 March 2010 (the "Relevant Periods") (the "Financial Information"), for inclusion in the circular of Century Sunshine Group Holdings Limited (the "Company") dated 25 September 2010 (the "Circular") in connection with the proposed acquisition of the entire equity interests in Gold Strategy by Bright Stone Group Limited, a wholly-owned subsidiary of the Company (the "Proposed Acquisition").

Gold Strategy was incorporated in the British Virgin Islands ("BVI") with limited liability on 15 December 2006.

The sole director of Gold Strategy considered its immediate and ultimate holding company is Rising Dragon Management Limited ("Rising Dragon") which was incorporated in the BVI.

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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As at the date of this report, Gold Strategy is an investment holding company. The particulars of Gold Strategy's subsidiaries are as follows:

Name	Place and date of incorporation or establishment/ operation	Share capital/ registered capital	Equity interest attributable to the Target Group	Principal activities
Fly Union Limited ("Fly Union")	Hong Kong/ 8 November 2007	HK\$ 100	100%	Investment holdings
江蘇龍騰化工有限公司 (Jiangsu Longteng Petrochemical Company Limited) ("Jiangsu Longteng")	The PRC/ 12 November 2003	RMB 14,160,000	91.3%	Mining and sales of serpentine
連雲港龍游物流有限公司	The PRC/ 10 January 2006	RMB 1,300,000	91.3%	Provision for internal logistic services

All the companies comprising the Target Group have adopted 31 December as their financial year end date.

Except for the years ended 31 December 2008 and 2009 of Fly Union and Jiangsu Longteng, no statutory audited financial statements of the companies comprising the Target Group have been prepared for each of the years ended 31 December 2007, 2008 and 2009 and for the three months ended 31 March 2010 where there is no such statutory requirement.

The statutory financial statements of Fly Union for the period from 8 November 2007 (date of incorporation of Fly Union) to 31 December 2008 and for the year ended 31 December 2009 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and audited by Ms. Yip Kim Ling, certified public accountant registered in Hong Kong.

The statutory audited financial statements of Jiangsu Longteng for the years ended 31 December 2008 and 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP"). For each of years ended 31 December 2008 and 2009, the statutory financial statements of Jiangsu Longteng was audited by 連雲港道勤會計師事務所有限公司 and 連雲港譽達聯合會計師事務所 respectively, both are certified public accountants registered in the PRC.

For the purpose of this report, the sole director of Gold Strategy has prepared the consolidated financial statements of the Target Group for the Relevant Periods in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

We were engaged to audit on the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information of the Target Group as set out in this report for inclusion in the Circular has been prepared from the Underlying Financial Statements without adjustments. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountants” as recommended by the HKICPA.

Respective responsibilities of director and reporting accountants

The sole director of Gold Strategy is responsible for the preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, that the judgments and estimates made are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated. The directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion, based on examination, on the Financial Information and to report our opinion to you.

Basis for disclaimer of opinion

(a) Acquisition of subsidiaries

On 10 September 2008, the Target Group acquired 86% equity interest of Jiangsu Longteng and its subsidiaries (the “Jiangu Group”) and the goodwill generated from the acquisition amounted to approximately RMB21,756,000 as detailed in Note 33 to the Financial Information. As there was no independent valuation report at the date of acquisition, we have been unable to satisfy ourselves as to whether the fair value of the identifiable assets and liabilities of the Jiangsu Group acquired and the goodwill generated from the acquisition were fairly stated. Any adjustment to the above may have consequential effects on the assets, liabilities, results and related disclosures in the notes to the Financial Information of the Target Group as at 31 December 2008 and 2009 and 31 March 2010 and for the years ended 31 December 2008 and 2009 and for the three months ended 31 March 2010.

(b) Impairment of goodwill

As stated in Note 17, the sole director of Gold Strategy has assessed the recoverable amount of goodwill at the end of each reporting period, based on a value-in-use calculation performed by the sole director. However, we have been unable to obtain sufficient reliable evidence to satisfy ourselves as to the reasonableness of the bases and assumptions used by the sole director in arriving at the valuation performed at the end of each reporting period, and therefore as to whether the carrying amount of the goodwill as at 31 December 2008 and 2009 and 31 March 2010 are fairly stated. Any adjustment to the goodwill and impairment loss, if any, would have a consequential impact on the Target Group’s net liabilities as at 31 December 2008 and 2009 and 31 March 2010 and its loss for the years ended 31 December 2008 and 2009 and the profit for the three months ended 31 March 2010, and the related disclosures thereof in the Financial Information.

(c) *Significant uncertainty relating to the going concern basis*

We have considered the net current liabilities position of the Target Group of approximately RMB74,762,000 as at 31 December 2009 and RMB71,553,000 as at 31 March 2010 and net liabilities of the Target Group of approximately RMB29,355,000 as at 31 December 2009 and RMB26,743,000 as at 31 March 2010 respectively and the adequacy of the disclosures made in Note 1 to the Financial Information concerning the adoptions of going concern basis on which the Financial Information has been prepared. The Financial Information has been prepared on a going concern basis. The validity of which is dependent upon the successful outcome of the measures undertaken as described in Note 1 to the Financial Information to ensure that adequate cash resources are available to the Target Group to enable it to meet its future working capital and financial requirements. The Financial Information does not include any adjustments that would result from the failure of such measures.

If the going concern basis is not appropriate, adjustments would have been made to reclassify non-current assets and liabilities as current assets and current liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustment may have a significant consequential effect on the loss of the Target Group for the year ended 31 December 2009 and the profit for the three months ended 31 March 2010 and net liabilities of the Target Group as at 31 December 2009 and 31 March 2010. We consider that appropriate disclosures have been made but because of the significant uncertainty relating to whether the going concern basis adopted in the Financial Information is appropriate, we have disclaimed our opinion.

Disclaimer of opinion: disclaimer on view given by the Financial Information

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the Financial Information as to whether the Financial Information gives a true and fair view of the state of affairs of the Target Group as at 31 December 2008, 31 December 2009 and 31 March 2010 and of the results and cash flows of the Target Group for the years ended 31 December 2008, 31 December 2009 and three months ended 31 March 2010 in accordance with HKFRSs.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2007 and of the results and cash flows of the Target Group for the year ended 31 December 2007.

Review conclusion

The comparative consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for the three months ended 31 March 2009 together with the notes thereon have been extracted from the Target Group's financial information for the same period (the "31 March 2009 Financial Information"), which was prepared by the sole director of Gold Strategy solely for the purpose of this report. It is our responsibility to form an independent conclusion, based

on our review, and to report our conclusion to you. For the purpose of this report, we have reviewed the 31 March 2009 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

Our review consists principally of making enquiries of the Target Group’s management and applying analytical procedures to the 31 March 2009 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 31 March 2009 Financial Information.

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we were unable to reach a review conclusion as to whether material modifications should be made to the 31 March 2009 Financial Information.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Three months ended	
		2007	2008	2009	31 March 2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	8	–	12,882	50,316	8,985	12,062
Cost of sales		–	(2,256)	(8,179)	(1,083)	(1,942)
Gross profit		–	10,626	42,137	7,902	10,120
Other income and gains	8	3	3,074	227	39	45
Selling and distribution expenses		–	(5,222)	(23,048)	(5,229)	(4,129)
Administrative expenses		(13)	(25,039)	(23,428)	(773)	(1,025)
Finance costs	9	–	(756)	(2,719)	(1,428)	(1,117)
(Loss) profit before tax	10	(10)	(17,317)	(6,831)	511	3,894
Income tax expenses	11	–	(868)	(3,009)	(313)	(1,400)
(Loss) profit for the year/period		(10)	(18,185)	(9,840)	198	2,494
Other comprehensive income for the year/period:						
Exchange difference arising on translation		–	47	–	–	–
Total comprehensive (expenses) income for the year/period		(10)	(18,138)	(9,840)	198	2,494
(Loss) profit for the year/period attributable to:						
Owner of Gold Strategy		(10)	(16,168)	(8,976)	170	2,277
Non-controlling interests		–	(2,017)	(864)	28	217
		(10)	(18,185)	(9,840)	198	2,494
Total comprehensive (expenses) income for the year/period attributable to:						
Owner of Gold Strategy		(10)	(16,121)	(8,976)	170	2,277
Non-controlling interests		–	(2,017)	(864)	28	217
		(10)	(18,138)	(9,840)	198	2,494

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
		2007	2008	2009	31 March
NOTES		RMB'000	RMB'000	RMB'000	2010
					RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	15	–	4,930	6,174	5,793
Prepaid lease payments	16	–	16,047	15,709	15,625
Goodwill	17	–	21,756	21,756	21,756
Mining right	18	–	3,349	2,964	2,868
		<u>–</u>	<u>46,082</u>	<u>46,603</u>	<u>46,042</u>
CURRENT ASSETS					
Inventories	19	–	3,829	2,543	3,056
Trade and bills receivables	20	–	7,944	13,768	15,308
Prepaid lease payments	16	–	338	338	338
Other receivables, deposits and prepayments		–	2,184	1,315	1,094
Cash and cash equivalents	21	<u>60</u>	<u>6,225</u>	<u>6,737</u>	<u>11,744</u>
		<u>60</u>	<u>20,520</u>	<u>24,701</u>	<u>31,540</u>
CURRENT LIABILITIES					
Trade payables	22	–	1,152	1,392	1,025
Other payables and accruals		26	13,644	12,580	11,284
Provision for over-extraction penalty	23	–	29,317	47,191	47,191
Amount due to a director	24	–	13,823	13,821	13,821
Amount due to an immediate holding company	24	44	44	44	44
Bank borrowings	25	–	–	10,000	20,000
Other borrowings – due within one year	26	–	20,224	11,826	7,475
Tax payable		<u>–</u>	<u>1,815</u>	<u>2,609</u>	<u>2,253</u>
		<u>70</u>	<u>80,019</u>	<u>99,463</u>	<u>103,093</u>

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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		As at 31 December			As at
		2007	2008	2009	31 March
		RMB'000	RMB'000	RMB'000	2010
NOTES					RMB'000
	NET CURRENT				
	LIABILITIES	(10)	(59,499)	(74,762)	(71,553)
	TOTAL ASSETS LESS				
	CURRENT LIABILITIES	(10)	(13,417)	(28,159)	(25,511)
	NON-CURRENT				
	LIABILITIES				
	Other borrowings – due				
	after one year	26	–	4,020	–
	Long-term payables	27	–	1,730	1,232
			–	5,750	1,232
	NET LIABILITIES	(10)	(19,167)	(29,355)	(26,743)
	CAPITAL AND RESERVES				
	Share capital	28	–	–	–
	Reserves	(10)	(15,708)	(26,010)	(23,615)
	Capital deficiency				
	attributable to:				
	Owner of Gold Strategy	(10)	(15,708)	(26,010)	(23,615)
	Non-controlling interests	–	(3,459)	(3,345)	(3,128)
	CAPITAL DEFICIENCY	(10)	(19,167)	(29,355)	(26,743)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital RMB'000	Attributable to the owner of Gold Strategy				Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		PRC statutory reserve RMB'000 (Note 1)	Safety fund RMB'000 (Note 2)	Other reserve RMB'000	Translation reserve RMB'000				
As at 1 January 2007	-	-	-	-	-	-	-	-	-
Loss and total comprehensive expenses for the year	-	-	-	-	-	(10)	(10)	-	(10)
As at 31 December 2007 and 1 January 2008	-	-	-	-	-	(10)	(10)	-	(10)
Loss and total comprehensive expenses for the year	-	-	-	-	47	(16,168)	(16,121)	(2,017)	(18,138)
Acquisition of subsidiaries	-	-	-	-	-	-	-	(1,442)	(1,442)
Appropriation of safety fund	-	-	430	-	-	-	430	-	430
Utilisation of safety fund	-	-	(7)	-	-	-	(7)	-	(7)
Transfer	-	728	-	-	-	(728)	-	-	-
As at 31 December 2008 and 1 January 2009	-	728	423	-	47	(16,906)	(15,708)	(3,459)	(19,167)
Loss and total comprehensive expenses for the year	-	-	-	-	-	(8,976)	(8,976)	(864)	(9,840)
Acquisition of additional equity interest of a subsidiary from non-controlling interests	-	-	-	(1,728)	-	-	(1,728)	978	(750)
Deregistration of a subsidiary	-	(23)	-	-	-	23	-	-	-
Appropriation of safety fund	-	-	435	-	-	-	435	-	435
Utilisation of safety fund	-	-	(33)	-	-	-	(33)	-	(33)
Transfer	-	811	-	-	-	(811)	-	-	-
As at 31 December 2009 and 1 January 2010	-	1,516	825	(1,728)	47	(26,670)	(26,010)	(3,345)	(29,355)
Profit and total comprehensive income for the period	-	-	-	-	-	2,277	2,277	217	2,494
Appropriation of safety fund	-	-	136	-	-	-	136	-	136
Utilisation of safety fund	-	-	(18)	-	-	-	(18)	-	(18)
As at 31 March 2010	-	1,516	943	(1,728)	47	(24,393)	(23,615)	(3,128)	(26,743)
As at 1 January 2009	-	728	423	-	47	(16,906)	(15,708)	(3,459)	(19,167)
Deregistration of a subsidiary	-	(23)	-	-	-	23	-	-	-
Profit and total comprehensive income for the period	-	-	-	-	-	170	170	28	198
As at 31 March 2009	-	705	423	-	47	(16,713)	(15,538)	(3,431)	(18,969)

Notes:

- 1) The PRC statutory reserve is non-distributable and the transfer to this reserve is determined by the directors of the PRC subsidiaries in accordance with the relevant laws and regulations of the PRC. This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.
- 2) Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund. The fund can be used for improvement of safety at the mines and construction sites and is not available for distribution to owners.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Three months ended	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Operating activities					
(Loss) profit before tax:	(10)	(17,317)	(6,831)	511	3,894
Adjustments for:					
– Interest income	(3)	(9)	(23)	(8)	(11)
– Finance costs	–	756	2,719	1,428	1,117
– Depreciation and amortisation	–	721	2,003	469	561
– Provision for over-extraction penalty	–	21,323	17,874	–	–
– Provision for safety fund	–	430	435	–	136
– Gain on deregistration of a subsidiary	–	–	(18)	–	–
– Loss (gain) on disposal of property, plant and equipment	–	786	(13)	–	–
Operating cash flows before movements in working capital	(13)	6,690	16,146	2,400	5,697
Decrease (increase) in inventories	–	577	1,286	(32)	(513)
Decrease (increase) in trade and bills receivables	–	518	(5,824)	(3,483)	(1,540)
Decrease in other receivables, deposits and prepayments	–	3,211	869	241	221
(Decrease) increase in trade payables	–	(379)	240	264	(367)
Increase (decrease) in other payables and accruals	26	(5,288)	(1,083)	5,648	(1,314)
Cash generated from operations	13	5,329	11,634	5,038	2,184
Income tax paid	–	(1,742)	(2,215)	(521)	(1,756)
Tax refund received	–	1,500	–	–	–
Net cash generated from operating activities	13	5,087	9,419	4,517	428

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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	Year ended 31 December			Three months ended	
	2007	2008	2009	31 March 2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Unaudited)</i>				
Investing activities					
Proceeds from disposal of property, plant and equipment	–	147	37	–	–
Interest received	3	9	23	8	11
Net cash outflow in respect of acquisition of subsidiary	–	(10,827)	–	–	–
Purchase of property, plant and equipment	–	(846)	(2,548)	(178)	–
Acquisition of additional equity interest of a subsidiary from non-controlling interests	–	–	(750)	–	–
Additions of mining right	–	(720)	(720)	–	–
	<u>3</u>	<u>(12,237)</u>	<u>(3,958)</u>	<u>(170)</u>	<u>11</u>
Net cash generated from (used in) investing activities					
	<u>3</u>	<u>(12,237)</u>	<u>(3,958)</u>	<u>(170)</u>	<u>11</u>
Financing activities					
Repayment of other borrowings	–	–	(18,015)	(7,135)	(8,099)
Interest paid	–	(555)	(2,323)	(1,323)	(1,063)
Advancement from (repayment to) a director	–	13,823	(2)	–	–
Advancement from an immediate holding company	44	–	–	–	–
Bank borrowings raised	–	–	10,000	–	10,000
Other borrowings raised	–	–	5,391	3,280	3,730
	<u>44</u>	<u>13,268</u>	<u>(4,949)</u>	<u>(5,178)</u>	<u>4,568</u>
Net cash generated from (used in) financing activities					
	<u>44</u>	<u>13,268</u>	<u>(4,949)</u>	<u>(5,178)</u>	<u>4,568</u>
Net increase (decrease) in cash and cash equivalents	<u>60</u>	<u>6,118</u>	<u>512</u>	<u>(831)</u>	<u>5,007</u>
Effect of foreign exchange rate changes	–	47	–	–	–
Cash and cash equivalents at the beginning of the year/period	<u>–</u>	<u>60</u>	<u>6,225</u>	<u>6,225</u>	<u>6,737</u>
Cash and cash equivalents at the end of the year/period	<u><u>60</u></u>	<u><u>6,225</u></u>	<u><u>6,737</u></u>	<u><u>5,394</u></u>	<u><u>11,744</u></u>

B. NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION AND BASIS OF PREPARATION****General information**

Gold Strategy was incorporated in the BVI on 15 December 2006 with limited liability. The registered office of Gold Strategy is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola. BVI and its principal place of business is Room 3705, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The Target Group is principally engaged in mining and sales of serpentine. Prior to acquisition of the Jiangsu Group on 10 September 2008, the Target Group was inactive.

The Financial Information is presented in Renminbi ("RMB"), which is same as the functional currency of the Target Group.

The sole director of Gold Strategy considered its immediate and ultimate holding company is Rising Dragon.

Basis of preparation

The Target Group had net current liabilities of approximately RMB74,762,000 as at 31 December 2009 and RMB71,553,000 as at 31 March 2010 and net liabilities of approximately RMB29,355,000 as at 31 December 2009 and RMB26,743,000 as at 31 March 2010, respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Target Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the sole director of Gold Strategy is of the opinion that the Target Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 March 2010 given that:

- (i) Mr Zhang Jun, the ultimate beneficial owner and the sole director of Gold Strategy, will continue to provide financial support to the Target Group to meet its liabilities and commitments as and when they fall due. The sole director has also undertaken that he will not require repayment of amount due to him by the Target Group until the Target Group is financially capable of doing so;
- (ii) the sole director of Gold Strategy anticipates that the Target Group will generate positive cash flows from its operations; and
- (iii) the Company has agreed to provide financial support to the Target Group to enable it to meet its financial obligations as they fall due for the foreseeable future upon completion of the Proposed Acquisition.

Accordingly, the sole director of Gold Strategy is of the opinion that it is appropriate to prepare the Financial Information on a going concern basis. Should the Target Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the Financial Information.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Target Group has applied, for the first time all of the Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and interpretations ("INT") (hereinafter collectively referred to as "new and revised HKFRSs") issued by the HKICPA that are relevant to its operations and effective for the Relevant Periods.

The Target Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC)-INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standards requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Target Group's financial assets.

The sole director of Gold Strategy anticipates that the application of the other new and revised standards, amendments or interpretation will have no material impact on the Financial Information.

3. **SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information have been prepared on the historical cost basis as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of Gold Strategy and entities controlled by Gold Strategy (its subsidiaries). Control is achieved where Gold Strategy has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Target Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owner of Gold Strategy.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owner of Gold Strategy and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Target Group's ownership interests in existing subsidiaries

Changes in the Target Group's ownership interest in a subsidiary that do not result in the Target Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Target Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of Gold Strategy.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Target Group, liabilities incurred by the Target Group to former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements and recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Target Group of an acquiree's share-based payment awards are measured in accordance with HKFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Target Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests have been initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or service, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payments

Payment for obtaining land use right is considered as prepaid lease payment. Prepaid lease payments are stated at cost less accumulated amortisation and any accumulated impairment losses, amortisation is charged to profit or loss over the period of the rights or the term of the respective enterprise to which the prepaid lease payments are granted, whichever is the shorter, using the straight-line method.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Mining right

Mining right that are acquired by the Target Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses and amortised over the shorter of the unexpired period of the mining right on the straight line basis and estimated useful lives of mines. Amortisation of mining rights with finite useful lives is charged to profit or loss on a straight-line basis from the date they are available for use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Impairment losses on tangible assets and mining right

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible assets and mining right to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years/period. A reversal of an impairment loss is recognised as income immediately.

Retirement benefit costs

Payments to state-managed retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowings costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are

recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Income tax expenses

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/ period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the account profit.

Deferred tax liabilities are recognised for the taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary difference and they are expected to reverse in the foreseeable future.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Target Group's financial assets are mainly classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables and deposits and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all of the Target Group's financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets such as, trade and bills receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 to 180 days, observable changes in national or local conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, where the carrying amount is reduced through the use of an allowance amount. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Target Group after deducting all of its liabilities. The Target Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accruals, amounts due to a director and an immediate holding company, bank and other borrowings and long-term payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Gold Strategy are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Target Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provision

Provisions are recognised when the Target Group has a present obligation as a result of a past event, and it is probable that the Target Group will be required to settle that obligation. Provisions including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies which are described in Note 3, the sole director of Gold Strategy are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 period.

Critical judgements in applying the entity's accounting policies

The followings are the critical judgements, apart from those involving estimations, that the sole director have made in the process of applying the Target Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Going concern consideration

The assessment of the going concern assumption involves making a judgement by the sole director of Gold Strategy, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The sole director of Gold Strategy considers that the Target Group and Gold Strategy have the ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in Note 1.

In addition, the actual mining production volume of the Target Group has exceeded the maximum mining production capacity as stipulated in its mining licence during the years ended 31 December 2007, 2008 and 2009. The PRC lawyer advised that the Target Group may be subject to a risk of mining licence being revoked for its non-compliance with the production capacity as stipulated in the mining licence in accordance with the relevant rules and regulations of the PRC. The sole director of Gold Strategy advised that, up to the date of this report, the mining licence of the Target Group is still valid and is confident that the Target Group is able to continue its business as a going concern in the foreseeable future.

Estimated renewal of operating lease of buildings located at the production plant and serpentine mine

All buildings located at the production plant and serpentine mine were owned by a state-owned enterprise (“江蘇省東海蛇紋石礦”). The normal operation of manufacturing of serpentine is subjected to successful renewal for the operating lease of buildings in the plant and the serpentine mine. The Target Group was still in the process of the negotiation regarding the renewal of lease term commencing from 2009 as at the date of the Circular. In the opinion of the sole director of Gold Strategy, the Target Group did not expect to have any major obstacles in the renewal of the operating lease of buildings in the plant and the serpentine mine.

Key sources of estimation uncertainty

The followings are 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.

Income taxes expenses

The Target Group is subject to Hong Kong profits tax and enterprise income taxes in the PRC. Significant judgement is required in determining the provision for income tax, as the calculations of which depend on the ultimate tax determination and are subject to uncertainty. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses in the year/ period in which such determination is made.

Estimation allowances for inventories

The management estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Target Group carries out an inventory review at the end of each of the reporting period and makes allowance in obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an impairment may arise.

Estimated impairment of property, plant and equipment, prepaid lease payments and mining right

The Target Group evaluates whether property, plant and equipment, prepaid lease payments and mining right have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units represent the higher of the asset's fair value less costs to sell or its value-in-use. The calculations of fair value less costs to sell or value-in-use require the use of estimates.

Estimated useful lives of property, plant and equipment and mining right

The Target Group's management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and mining right. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and mining rights of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Management will increase the depreciation and amortisation charge when useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Estimated impairment loss of trade and bills receivable

When there is objective evidence of impairment loss, the Target Group takes into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Estimated land restoration and environmental costs

To date, the Target Group has not incurred a significant expenditure for land restoration and environmental remediation and is currently not involved in any land restoration and environmental remediation. The Target Group has deposited the amounts for land restoration and environmental remediation relating to its serpentine mining operations in Donghai County, Jiangsu Province, the PRC. Under existing legislation and regulations of the PRC, the sole director of Gold Strategy believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Target Group. The PRC government has moved and may move further towards more rigorous enforcement of applicable laws and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Target Group's ability to estimate the ultimate cost of land restoration and environmental remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to serpentine mining; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative land restoration and environmental remediation strategies; and (iv) changes in land restoration and environmental remediation requirements. The amount of such future costs is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present, and could be material. The Target Group's deposit for land restoration and environmental costs under the relevant existing rules and regulations amounted to approximately nil, RMB521,000, RMB621,000 and RMB621,000 as at 31 December 2007, 2008 and 2009 and 31 March 2010, respectively.

Provision for over-extraction penalty

During the Relevant Periods, the actual mining production volume of the Target Group has exceeded the maximum mining production capacity as stipulated in its mining licence. The PRC lawyer advised that the Target Group may be subject to potential penalties and a risk of mining licence being revoked for its non-compliance with the production capacity as stipulated in the mining licence in accordance with the relevant rules and regulations of the PRC. The sole director of Gold Strategy advised that, up to the date of this report, the PRC authorities have not issued any notice of penalties against the Target Group but the mining licence of the Target Group is still valid. After having sought the PRC legal opinion, the sole director of Gold Strategy has provided for over-extraction penalty in amounts of RMB21,323,000 and RMB17,874,000 for the years ended 31 December 2008 and 2009 respectively.

5. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	60	14,997	21,296	27,890
Financial liabilities				
Other financial liabilities at amortised cost	70	54,496	50,485	53,925

b. Financial risk management objectives and policies

The Target Group's major financial instruments include trade and bills receivables, other receivables and deposits, cash and cash equivalents, trade payables, other payables and accruals, amounts due to a director and an immediate holding company, bank and other borrowings and long-term payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of Gold Strategy manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Interest rate risk

The Target Group is exposed to fair value interest rate risk in relation to bank borrowings and other borrowings (see notes 25 and 26 respectively for details). The Target Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

The Target Group is also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing market rate. However, such exposure is minimal to the Target Group as the bank balances are all short-term in nature.

(ii) Credit risk

The Target Group's maximum exposure to credit risk in the event of the counter parties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position.

The Target Group's concentration of credit risk by geographical location is mainly in the PRC, which accounts for 100% of trade receivables as at 31 December 2008 and 2009 and 31 March 2010.

In order to minimise the credit risk, the Target Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the sole director of Gold Strategy considers that the credit risk of the Target Group is significantly reduced.

At the end of each reporting period, the Target Group has concentration of credit risk of total trade receivables as follows:

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	(Unaudited)				
Due from the Target Group's the largest debtor	–	43%	58%	38%	40%
Due from the Target Group's largest five debtors	–	91%	85%	92%	89%

(iii) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Target Group aims to maintain flexibility in funding by keeping adequate facilities available.

The Target Group is exposed to liquidity risk as the Target Group had net liabilities and capital deficiency of approximately RMB29,355,000 and RMB26,743,000 as at 31 December 2009 and as at 31 March 2010, respectively. The liquidity of the Target Group primarily depends on the future funding being available and the ability of the Target Group to meet its financial obligations as they fall due. Details of which are set out in Note 1.

The table below analyses the Target Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The following table details the remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay:

	On demand or within one year <i>RMB'000</i>	More than one year less than two years <i>RMB'000</i>	More than two years less than five years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2007					
Other payables and accruals	26	–	–	26	26
Amount due to an immediate holding company	44	–	–	44	44
	<u>70</u>	<u>–</u>	<u>–</u>	<u>70</u>	<u>70</u>
	On demand or within one year <i>RMB'000</i>	More than one year less than two years <i>RMB'000</i>	More than two years less than five years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2008					
Other borrowings	21,814	4,839	–	26,653	24,244
Trade payables	1,152	–	–	1,152	1,152
Other payables and accruals	13,503	–	–	13,503	13,503
Amount due to a director	13,823	–	–	13,823	13,823
Amount due to an immediate holding company	44	–	–	44	44
Long-term payables	<u>–</u>	<u>720</u>	<u>1,440</u>	<u>2,160</u>	<u>1,730</u>
	<u>50,336</u>	<u>5,559</u>	<u>1,440</u>	<u>57,335</u>	<u>54,496</u>

At 31 December 2009	On demand or within one year RMB'000	More than one year less than two years RMB'000	More than two years less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Bank borrowings	10,531	–	–	10,531	10,000
Other borrowings	12,037	–	–	12,037	11,826
Trade payables	1,392	–	–	1,392	1,392
Other payables and accruals	12,206	–	–	12,206	12,206
Amount due to a director	13,821	–	–	13,821	13,821
Amount due to an immediate holding company	44	–	–	44	44
Long-term payables	–	720	720	1,440	1,196
	<u>50,031</u>	<u>720</u>	<u>720</u>	<u>51,471</u>	<u>50,485</u>
At 31 March 2010	On demand or within one year RMB'000	More than one year less than two years RMB'000	More than two years less than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Bank borrowings	21,062	–	–	21,062	20,000
Other borrowings	8,029	–	–	8,029	7,475
Trade payables	1,025	–	–	1,025	1,025
Other payables and accruals	10,328	–	–	10,328	10,328
Amount due to a director	13,821	–	–	13,821	13,821
Amount due to an immediate holding company	44	–	–	44	44
Long-term payables	–	720	720	1,440	1,232
	<u>54,309</u>	<u>720</u>	<u>720</u>	<u>55,749</u>	<u>53,925</u>

c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

The sole director of Gold Strategy considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

6. CAPITAL RISK MANAGEMENT

The primary objective of the Target Group's capital management is to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The capital structure of the Target Group consists of debts, which included the bank borrowings disclosed in note 25, other borrowings disclosed in note 26, long-term payables disclosed in note 27, cash and cash equivalents and capital deficiency attributable to owners of Gold Strategy, comprising issued share capital and reserves.

The sole director of Gold Strategy reviews the capital structure on an annual basis. As part of this review, the director considers the cost of capital and risks associated with each class of capital. Based on recommendations of the sole director, the Target Group will balance its overall capital structure through new share issues and borrowings.

There is no change in the capital risk management policy adopted by the Target Group during the Relevant Periods.

7. SEGMENT INFORMATION

The serpentine mining business of the Target Group is monitored by the chief operating decision maker as one and single operating segment to allocate resources and assess performance. No operating segments have been aggregated to form the above reportable operating segment.

The Target Group's revenue and operating results were solely derived from its operation in the PRC and its identifiable assets and liabilities were located in the PRC.

Information about major customers

Revenues from customers of the corresponding years/ periods contributing over 10% of the total sales of the Target Group are as follows:

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Customer A	—	—	—	—	3,547
Customer B	—	*	*	—	1,711
Customer C	—	*	*	*	1,403
Customer D	—	4,080	*	3,056	—
Customer E	—	—	*	2,243	—
Customer F	—	*	*	1,185	*
Customer G	—	1,987	12,619	1,098	*
Customer H	—	—	11,270	—	—
Customer I	—	*	5,647	*	*
Customer J	—	—	*	—	*

All revenues generated from the major customers relate to the sale of serpentine.

* The revenues from those customers of the corresponding year/period are less than 10% of the total sales of the Target Group.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

8. REVENUE AND OTHER INCOME AND GAINS

Revenue

Revenue represents the amounts received or receivable for sales of serpentine during each of the reporting periods and the three months ended 31 March 2009.

Other income and gains

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest income	3	9	23	8	11
Sales of scrap materials	–	388	–	–	–
Gain on deregistration of a subsidiary	–	–	18	–	–
Government grants (Note)	–	2,370	20	–	–
Gain on disposal of property, plant and equipment	–	–	13	–	–
Sundry income	–	307	153	31	34
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>3</u>	<u>3,074</u>	<u>227</u>	<u>39</u>	<u>45</u>

Note: The Target Group received unconditional grants from local government during the Relevant Periods as an encouragement of its development and such government grants were determined at the sole discretion of the relevant PRC government authorities and were recognised in other income and gains.

9. FINANCE COSTS

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on bank borrowings	–	51	104	13	595
Interest on other borrowings	–	504	2,223	1,310	468
Imputed interest expenses	–	201	392	105	54
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>–</u>	<u>756</u>	<u>2,719</u>	<u>1,428</u>	<u>1,117</u>

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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10. (LOSS) PROFIT BEFORE TAX

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
(Loss) profit before tax has been arrived at after charging:					
Salaries and allowances	–	663	3,013	412	665
Contributions to retirement benefits scheme	–	114	262	69	78
Total staff costs (including director's remuneration)	–	777	3,275	481	743
Auditors' remuneration	–	85	209	–	–
Cost of inventories recognised as an expenses	–	2,256	8,179	1,083	1,942
Loss on disposal of property, plant and equipment	–	786	–	–	–
Lease payments under operating lease for rented premises and property, plant and equipment	–	18	216	54	54
Depreciation for property, plant and equipment	–	479	1,280	289	381
Amortisation for prepaid lease payments	–	114	338	84	84
Amortisation for mining right	–	128	385	96	96
Provision for over-extraction penalty (included in administrative expenses)	–	21,323	17,874	–	–
<i>(Note)</i>	–	21,323	17,874	–	–

Note: During the years ended 31 December 2008 and 2009, the actual mining production volume of the Target Group exceeded the maximum mining production capacity as stipulated in its mining license. Hence, provision for over-extraction penalty was provided in accordance with the relevant rules and regulations of the PRC.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

11. INCOME TAX EXPENSES

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax:					
PRC Enterprise Income Tax ("PRC EIT")	–	2,368	3,009	313	1,400
Over provision in prior years/periods (Note)	–	(1,500)	–	–	–
	<u>–</u>	<u>868</u>	<u>3,009</u>	<u>313</u>	<u>1,400</u>

Note: Overprovision of PRC EIT for the year ended 31 December 2008 represented tax benefits available to the Target Group in respect of the special tax concession for the financial crisis in 2007 but granted in 2008.

Hong Kong Profit Tax

No provision for Hong Kong Profits Tax has been made as the Target Group's income neither arises in, nor is derived from Hong Kong.

PRC Enterprise Income Tax

The PRC EIT for the years ended 31 December 2007, 2008 and 2009 and for the three months ended 31 March 2009 and 2010 have been calculated using the rate of 25%.

The income tax for the Relevant Periods and the three months ended 31 March 2009 can be reconciled to the (loss) profit before tax per the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
(Loss) profit before tax	<u>(10)</u>	<u>(17,317)</u>	<u>(6,831)</u>	<u>511</u>	<u>3,894</u>
Tax at the applicable tax rate of 25% for 2007, 2008, 2009 and 2010	(3)	(4,329)	(1,708)	128	974
Tax effect of expenses not deductible for tax purpose	3	6,698	4,729	185	426
Tax effect of income not taxable for tax purpose	–	(1)	(12)	–	–
Over provision in prior years/ periods	<u>–</u>	<u>(1,500)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Tax charge for the year/period	<u>–</u>	<u>868</u>	<u>3,009</u>	<u>313</u>	<u>1,400</u>

12. DIRECTOR'S EMOLUMENTS

No emolument, including an incentive payment for joining the Target Group or as compensation for loss of office, was paid to the following directors of Gold Strategy during the Relevant Periods and the three months ended 31 March 2009.

Name of directors

Zhang Ting (appointed on 5 January 2007 and resigned on 30 May 2008)

Zhang Jun (appointed on 30 May 2008)

No director waived or agreed to waive any emolument paid by the Target Group during the Relevant Periods and the three months ended 31 March 2009.

13. EMPLOYEES' EMOLUMENTS

The five individuals, who are non-directors, with the highest emoluments in the Target Group were as follows:

	Year ended 31 December			Three months ended 31 March	
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2009 RMB'000 (Unaudited)	2010 RMB'000
Salaries and other benefits	–	42	130	32	32
Contributions to retirement benefit scheme	–	4	–	–	–
	<u>–</u>	<u>46</u>	<u>130</u>	<u>32</u>	<u>32</u>

The emolument of each individual during the Relevant Periods and the three months ended 31 March 2009 was within the emoluments band of less than RMB500,000.

During the Relevant Periods and three months ended 31 March 2009, no emolument was paid by the Target Group to the five highest paid individuals (include the sole director and employees) as an inducement to join or upon joining the Target Group or as compensation for loss for office.

14. DEREGISTRATION OF A SUBSIDIARY

On 30 June 2009, the Target Group deregistered one of its wholly owned subsidiaries, 連雲港龍泉貿易有限公司.

Net liabilities at the date of deregistration:

	30 June 2009 RMB'000
Other payables and accruals	(18)
Gain on deregistration	<u>18</u>
	<u>–</u>

The deregistered subsidiary had no significant impact on the turnover, results and cash flows to the Target Group during the Relevant Periods.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machineries RMB'000	Office equipments RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<i>Cost:</i>						
As at 1 January 2007, 31 December 2007 and 1 January 2008	–	–	–	–	–	–
Additions through acquisition of subsidiaries (Note 33)	620	2,055	31	1,499	1,291	5,496
Additions	–	695	–	–	151	846
Transfer from construction in progress	–	1,442	–	–	(1,442)	–
Disposals	(114)	(115)	–	(862)	–	(1,091)
As at 31 December 2008 and 1 January 2009	506	4,077	31	637	–	5,251
Additions	16	1,538	53	166	775	2,548
Transfer from construction in process	775	–	–	–	(775)	–
Disposals	–	(89)	–	–	–	(89)
As at 31 December 2009, 1 January 2010 and 31 March 2010	1,297	5,526	84	803	–	7,710
<i>Accumulated depreciation:</i>						
As at 1 January 2007, 31 December 2007 and 1 January 2008	–	–	–	–	–	–
Charge for the year	49	381	3	46	–	479
Elimination on disposals	(26)	(115)	–	(17)	–	(158)
As at 31 December 2008 and 1 January 2009	23	266	3	29	–	321
Charge for the year	217	847	12	204	–	1,280
Elimination on disposals	–	(65)	–	–	–	(65)
As at 31 December 2009 and 1 January 2010	240	1,048	15	233	–	1,536
Charge for the period	72	238	6	65	–	381
As at 31 March 2010	312	1,286	21	298	–	1,917
<i>Net carrying values:</i>						
As at 31 December 2007	–	–	–	–	–	–
As at 31 December 2008	483	3,811	28	608	–	4,930
As at 31 December 2009	1,057	4,478	69	570	–	6,174
As at 31 March 2010	985	4,240	63	505	–	5,793

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The above property, plant and equipment are depreciated over their estimated useful lives on a straight-line basis, taking into account their estimated residual values, as follows:

Buildings	10%
Plant and machineries	5% - 10%
Office equipments	20%
Motor vehicles	20%

All buildings of the Target Group were located in the PRC. During the Relevant Periods, the building ownership certificates of all buildings have not been granted by the relevant government authorities. In the opinion of the sole director of Gold Strategy, the absence of buildings ownership certificates to these buildings does not impair the value of the buildings to the Target Group.

The Target Group has pledged certain buildings and plant and machineries in net book values of approximately RMB3,962,000 and RMB3,785,000 to secure the bank borrowings as at 31 December 2009 and 31 March 2010 respectively.

16. PREPAID LEASE PAYMENTS

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Current assets	–	338	338	338
Non-current assets	–	16,047	15,709	15,625
	–	16,385	16,047	15,963

Prepaid lease payments represent use rights for the land located in the PRC for the period from June 2007 to June 2057 which is classified as medium term lease.

The Target Group has pledged its prepaid lease payments in net book values of approximately RMB16,047,000 and RMB15,963,000 to secure bank borrowings as at 31 December 2009 and 31 March 2010, respectively.

17. GOODWILL

The carrying amounts of goodwill at the end of the reporting period allocated to the Jiangsu Group are as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Cost:				
At 1 January	–	–	21,756	21,756
Arising on acquisition of subsidiaries (Note 33)	–	21,756	–	–
Net carrying value:				
At 31 December / 31 March	–	21,756	21,756	21,756

As at 31 December 2008 and 2009 and 31 March 2010, the recoverable amounts of the Jiangsu Group are determined from value-in-use calculations based on the cashflow forecast of the Jiangsu Group. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to selling price and direct costs during the years. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Jiangsu Group. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectation of future changes in the market.

That calculation uses cash flow projections based on financial budgets approved by management covering the years to 2019, and at a discount rate of 15.3%. The cash flows beyond the year of 2019 are extrapolated using a constant growth rate of 3%. The financial budgets and growth rates are estimated according to the stage of each operation with reference to the development curve of the industry in the PRC region.

18. MINING RIGHT

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January	–	–	3,477	3,477
Addition through acquisition of subsidiaries (<i>Note 33</i>)	–	3,477	–	–
At 31 December / 31 March	–	3,477	3,477	3,477
Accumulated amortization:				
At 1 January	–	–	128	513
Charge of the year / period	–	128	385	96
At 31 December / 31 March	–	128	513	609
Net carrying values:				
At 31 December / 31 March	–	3,349	2,964	2,868

The balance represents mining right that amortised over its operating period on a straight line basis for 10 years from September 2007 to September 2017.

On 13 September 2007, Jiangsu Longteng entered into an agreement with 江蘇省土地資源廳 to acquire a mining right of 東海蛇紋石礦 which located in Donghai County of Jiangsu Province, the PRC, at consideration of approximately RMB4,555,000. Amounts of approximately RMB720,000 and RMB720,000 were paid during the years ended 31 December 2008 and 2009 respectively. The remaining balances would be paid upon maturity and it was included in other payables and long-term payables in note 27.

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19. INVENTORIES

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw material and consumables	–	680	483	505
Finished goods	–	3,149	2,060	2,551
	–	3,829	2,543	3,056

20. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	–	5,494	12,363	10,028
Bills receivable	–	2,450	1,405	5,280
	–	7,944	13,768	15,308

The Target Group allows a credit period normally ranging from 90 to 180 days to its trade customers during the Relevant Periods. An aging analysis of the Target Group's trade and bills receivables presented based on the invoice date at the end of each reporting period is as follows:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	–	2,665	7,965	8,991
31 to 60 days	–	2,407	4,689	3,709
61 to 90 days	–	1,670	641	1,506
Over 90 days	–	1,202	473	1,102
	–	7,944	13,768	15,308

At the end of each reporting period, the aging analysis of trade and bills receivables that are past due but not impaired is as follows:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	–	7,193	13,553	14,806
Within 30 days	–	426	157	–
31 to 60 days	–	325	58	389
61 to 90 days	–	–	–	–
Over 90 days	–	–	–	113
	<u>–</u>	<u>7,944</u>	<u>13,768</u>	<u>15,308</u>

Trade and bills receivables that were neither past due nor impaired related to a wide range of customers for whom there were no recent history of default. Trade and bills receivables that were past due but not impaired related to a number of customers that have a good track payment record with the Target Group. Based on past experience, the management of the Target Group believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Group does not hold any collateral over these balances.

21. CASH AND CASH EQUIVALENTS

Bank balances carry interest at prevailing market rates ranged from 0.01% to 0.72% during the Relevant Periods.

Cash and cash equivalents in the amounts of approximately RMB5,778,000, RMB6,583,000 and RMB11,590,000 were denominated in RMB as at 31 December 2008 and 2009 and 31 March 2010 respectively. The remittance of RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

22. TRADE PAYABLES

At the end of each reporting period, the aging analysis of trade payables of the Target Group based on the invoice date is as follows:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	–	119	607	120
31 – 60 days	–	27	33	72
61 – 90 days	–	19	14	–
Over 90 days	–	987	738	833
	<u>–</u>	<u>1,152</u>	<u>1,392</u>	<u>1,025</u>

23. PROVISION FOR OVER-EXTRACTION PENALTY

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year / period	–	–	29,317	47,191
Addition through acquisition of subsidiaries (Note 33)	–	7,994	–	–
Additional provision in the year / period	–	21,323	17,874	–
	<u>–</u>	<u>29,317</u>	<u>47,191</u>	<u>47,191</u>

The provision represents over-extraction penalty in relation to the actual mining production volume of the Target Group exceeded the maximum mining production capacity as stipulated in its mining license.

24. AMOUNTS DUE TO A DIRECTOR AND AN IMMEDIATE HOLDING COMPANY

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

25. BANK BORROWINGS

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed rate bank borrowings repayable within one year				
– Secured	–	–	10,000	20,000
	<u>–</u>	<u>–</u>	<u>10,000</u>	<u>20,000</u>

As at 31 December 2009 and 31 March 2010, the bank borrowings were secured by the assets of the Target Group as shown in note 30.

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The effective interest rates per annum at the end of each reporting period are as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
				2010
Bank borrowings	–	–	5.31%	5.31%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

26. OTHER BORROWINGS

At the end of each reporting period, the other borrowings were repayable as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Other borrowings (unsecured):				
– On demand or within one year	–	20,224	11,826	7,475
– More than one year but not exceeding two years	–	4,020	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total other borrowings	–	24,244	11,826	7,475
Less: Amount due within one year shown under current liabilities	–	(20,224)	(11,826)	7,475
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Amount due after one year	–	4,020	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Loans from staff	–	8,992	6,159	6,729
Others	–	15,252	5,667	746
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	–	24,244	11,826	7,475
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The effective interest rate per annum at the end of each reporting period ranged from:

	As at 31 December			As at
	2007	2008	2009	31 March
				2010
Other borrowings	–	8.00%-10.20%	8.00%-10.20%	4.00%-10.00%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As at 31 December 2008 and 2009, other borrowings of approximately RMB15,000,000 and RMB5,000,000 respectively, were guaranteed by the director of the Company, Mr Chi Wen Fu, and the minority shareholder of Jiangsu Longteng, Mr Ma Qiang.

27. LONG-TERM PAYABLES

Long-term payables were the remaining consideration for the acquisition of mining rights as disclosed in note 18. The payables would be settled by cash of approximately RMB720,000 in each year from 2008 to 2012.

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred considerations:				
– On demand or within one year	–	669	669	669
– More than one year but not exceeding two years	–	620	620	620
– More than two years but not more than five years	–	1,110	576	612
Total deferred considerations	–	2,399	1,865	1,901
Less: Amount due within one year shown under current liabilities (included in other payables)	–	(669)	(669)	(669)
Long-term payable	–	1,730	1,196	1,232

The long-term payables were denominated in RMB and the effective interest rate during the Relevant Periods was 7.74% per annum.

28. SHARE CAPITAL

Gold Strategy was incorporated in the BVI with limited liabilities on 15 December 2006 and was authorised to issue 50,000 ordinary shares of no par value. On 5 January 2007, one ordinary share of US\$1 each was issued as initial share capital.

	Number of shares	Amount US\$'000	Amount for Presentation RMB'000
Issued and fully paid:			
At 1 January 2007	–	–	–
Issue of share	1	–	–
At 31 December 2007, 2008 and 2009 and 31 March 2010	1	–	–

29. OPEARTING LEASE COMMITMENTS

The Target Group leases various lands and property, plant and equipment under non-cancellable lease arrangements. The leases have varying terms, escalation clauses and renewal rights. Leases are negotiated for terms ranging from 5 to 20 years.

At the end of each reporting period, the Target Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	–	28	244	244
In the second to fifth years, inclusive	–	110	758	704
Over five years	–	315	287	280
	<u>–</u>	<u>453</u>	<u>1,289</u>	<u>1,228</u>

30. PLEDGED OF ASSETS

- a) Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 25) of the Target Group:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment (Note 15)	–	–	3,962	3,785
Prepaid lease payments (Note 16)	–	–	16,047	15,963
	<u>–</u>	<u>–</u>	<u>20,009</u>	<u>19,748</u>

- b) On 19 December 2008, Rising Dragon entered into a memorandum of understanding (the “MOU”) with Bright Stone Group Limited, a wholly-owned subsidiary of the Company, in respect of the Proposed Acquisition. A refundable earnest money of HK\$55,000,000 (equivalent to RMB47,850,000) was paid to Rising Dragon at the signing of the MOU.

The entire equity interests in Fly Union were pledged to Bright Stone Group Limited to secure the refund of the earnest money and the performance of Rising Dragon and its obligations under the MOU.

31. RETIREMENT BENEFIT SCHEMES

As stipulated by the rules and regulations in the PRC, the Target Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Target Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The only obligation of the Target Group with respect to the retirement benefit plan is to make the specified contributions. The total retirement benefit scheme contributions charged to the consolidated statements of comprehensive income amounted to approximately nil, RMB114,000, RMB262,000, RMB69,000 and RMB78,000 respectively for the years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2009 and 2010, respectively.

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF GOLD STRATEGY

The following is a list of the principal subsidiaries of Gold Strategy as at 31 December 2007, 2008, 2009 and 31 March 2010:

Name	Place of incorporation/ establishment	Class of shares held	Issued share capital/ paid up capital	Equity interest attributable to the Target Group				Principal activities
				31 December		31 March		
				2007	2008	2009	2010	
Fly Union	Hong Kong	Ordinary	HK\$ 100	100%	100%	100%	100%	Investment holdings
Jiangsu Longteng	The PRC	Contributed capital	RMB 14,160,000	–	86%	91.3%	91.3%	Mining and sales of serpentine
連雲港龍泉貿易有限公司	The PRC	Contributed capital	RMB 2,600,000	–	86%	–	–	Trading of compound fertilizers and sulphuric acid
連雲港龍游物流有限公司	The PRC	Contributed capital	RMB 1,300,000	–	86%	91.3%	91.3%	Provision for internal logistic services

33. ACQUISITION OF SUBSIDIARIES

On 10 September 2008, the Target Group acquired 86% of the equity interests in the Jiangsu Group at a consideration of RMB12,900,000. The acquisition has been accounted for using the acquisition method.

The net liabilities acquired in the transaction and the goodwill arising are as follows:

	Acquiree's carrying value
	<i>RMB'000</i>
Assets (liabilities) acquired:	
Property, plant and equipment	5,496
Prepaid lease payments	16,499
Mining right	3,477
Inventories	4,406
Trade and bills receivables	8,462
Other receivables, deposits and prepayments	5,395
Cash and cash equivalents	2,073
Trade payables	(1,531)
Other payables and accruals	(19,619)
Provision for over-extraction penalty	(7,994)
Other borrowings	(24,169)
Tax payable	(1,189)
Long term payables	(1,604)
	(10,298)
Non-controlling interests	1,442
Net liabilities acquired	(8,856)
Goodwill	21,756
	12,900
Satisfied by:	
Cash consideration paid	12,900
An analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries are as follows:	
Cash consideration paid	(12,900)
Cash and cash equivalents acquired	2,073
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(10,827)

In the opinion of the sole director of Gold Strategy, the carrying amounts of acquired net liabilities approximate to their fair value.

The goodwill is attributable to the industry expertise as well as the profitable business model of the acquired business.

The Jiangsu Group contributed RMB18,105,000 to the Target Group's loss for the period between the date of acquisition and 31 December 2008.

If the acquisition had been completed on 1 January 2008, the Jiangsu Group would have contributed to the Target Group's turnover and loss for the period of approximately RMB40,320,000 and RMB16,258,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Target Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

On 20 July 2009, the Target Group further acquired 5.3% equity interests in the Jiangsu Group from an non-controlling shareholder for a consideration of approximately RMB750,000. The Target Group held total of 91.3% equity interest in the Jiangsu Group after the increase in investment.

34. RELATED PARTIES TRANSACTIONS

Except as disclosed elsewhere in the Financial Information, the Target Group entered into the following significant related party transactions during the Relevant Periods and the three months ended 31 March 2009.

(a) Compensation to director and key management personnel of the Target Group:

	Year ended 31 December			Three months ended	
	2007	2008	2009	31 March 2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Unaudited)</i>				
Short-term benefits	–	15	81	27	18
Post-employment benefits	–	2	1	1	–
	<u>–</u>	<u>17</u>	<u>82</u>	<u>28</u>	<u>18</u>

The remuneration of director and key executives is determined with regard to the performance of individual and market trends.

35. CONTINGENT LIABILITIES

Environmental contingencies

The Target Group's operations are regulated by various laws and regulations. Laws and regulations protecting the environment and wild life have generally become more stringent in recent years and could become more stringent in the future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Target Group for violations for existing conditions attached to the licence whether or not caused or known by the Target Group. The financial position of the Target Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The sole director of the Gold Strategy is not aware of any environmental liabilities as at 31 March 2010. The sole director of the Gold Strategy is also not aware of any violation to existing conditions attached to the Target Group's serpentine mining licence, or subject to any significant costs, expenses, penalties and liabilities.

C. SUBSEQUENT EVENTS

There are no material subsequent events took place as at the date of this report.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Target Group in respect of any period subsequent to 31 March 2010.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practising Certificate Number: P03427
Hong Kong
25 September 2010

1.2 MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULT OF THE TARGET GROUP

Set out in Appendix II to this circular is the accountants' report of the Target Group for the three financial years ended 31 December 2009 and for the three months ended 31 March 2010. Below is the management discussion and analysis on the performance of the Target Group for each of the aforesaid periods:–

(i) For the year ended 31 December 2007

Results and financial position

Gold Strategy was incorporated in the BVI on 15 December 2006. The Target Group was inactive prior to the acquisition of Longteng Group in 2008. Accordingly, for the year ended 31 December 2007, the Target Group recorded no revenue but an interest income of approximately RMB3,000 and resulted in a net loss of approximately RMB10,000 which was attributable to administrative expenses of approximately RMB13,000.

Capital structure and liquidity

As at 31 December 2007, the Target Group held cash and cash equivalents of approximately RMB60,000, whereas on the liability side, the Target Group had (i) an amount due to an immediate holding company of approximately RMB44,000; and (ii) other payables and accruals of approximately RMB26,000. The Target Group had no non-current liabilities and recorded net liabilities of approximately RMB10,000.

Significant investments, material acquisitions and disposals

The Target Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2007.

Employees and remuneration policy

Given that the Target Group was inactive for the year ended 31 December 2007, no staff cost was incurred during the year.

Charges on assets

The Target Group had no pledged assets as at 31 December 2007.

Foreign exchange risk

During the year, all of the (i) administrative expenses; (ii) cash and cash equivalents; and (iii) the liabilities of the Target Group were denominated in RMB and therefore the Target Group is not exposed to foreign exchange risk save for remittance out of the PRC which is subject to the foreign exchange control restrictions imposed by the government of the PRC.

Contingent liabilities

The Target Group had no material contingent liabilities as at 31 December 2007.

Future plans and prospects

Although the Target Group was inactive during the year, Gold Strategy was incorporated with an intention to become an investment holding company once suitable opportunity arises.

(ii) For the year ended 31 December 2008*Results and financial position*

On 10 September 2008, the Target Group acquired 86% of the Longteng Group, which was engaged in the single operating segment of the sales of serpentine in the PRC. Hence, the consolidated financial performance of the Target Group during the year was substantially contributed by the Longteng Group. For the year ended 31 December 2008, the Target Group contributed revenue and gross profit of approximately RMB12.9 million and RMB10.6 million, respectively, representing a gross margin of approximately 82.2%. Major expenses for the year included (i) administrative expenses of approximately RMB25.0 million that was primarily attributable to the provision of a penalty which might be imposed in accordance with the rules and regulations of the PRC due to the volume of serpentine extracted by the Longteng Group during the year exceeded the volume per annum as granted under its mining license (the "Penalty Provision") of approximately RMB21.3 million; and (ii) selling and distribution expenses of approximately RMB5.2 million, of which RMB4.2 million was attributable to transportation expenses mainly for the delivery of serpentine to customers. As a result, the Target Group recorded a loss for the year of approximately RMB18.1 million.

Capital structure and liquidity

As at 31 December 2008, the Target Group held cash and cash equivalents of approximately RMB6.2 million, whereas other borrowings amounted to approximately RMB24.2 million, which led to a gearing ratio, being total borrowings divided by total assets, of approximately 35.9%. The

Target Group recorded net current liabilities of approximately RMB59.5 million, which was primarily attributable to (i) the Penalty Provision of approximately RMB29.3 million; and (ii) other borrowings due within one year of approximately RMB20.2 million as at 31 December 2008.

Significant investments, material acquisitions and disposals

Save for the acquisition of the Longteng Group for a consideration of approximately RMB12.9 million on 10 September 2008, the Target Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2008.

Employees and remuneration policy

The Target Group had 102 employees as at 31 December 2008. Total staff costs, including directors' remuneration, amounted to approximately RMB0.8 million for the year. On top of basic salaries, the Target Group provided retirement benefit scheme contributions to staffs during the year. The Target Group has no bonus or share option schemes.

Charges on assets

On 19 December 2008, the Seller entered into the MOU with the Buyer in respect of the proposed acquisition of the Target Group. A refundable earnest money of HK\$55.0 million (equivalent to approximately RMB47.9 million) was paid to the Seller at the signing of the MOU. The entire equity interests in Fly Union were pledged to the Buyer to secure the refund of the earnest money and the performance of the Seller and its obligations under the MOU (the "MOU Pledge").

Foreign exchange risk

During the year, all of the (i) operating revenue and expenses; (ii) cash and cash equivalents; and (iii) borrowings of the Target Group were denominated in RMB and therefore the Target Group is not exposed to foreign exchange risk save for remittance out of the PRC which is subject to the foreign exchange control restrictions imposed by the government of the PRC.

Contingent liabilities

The Target Group had no material contingent liabilities as at 31 December 2008.

Future plans and prospects

The Target Group will continue to allocate resources and investments for further development of the serpentine business, such as the increase in annual production capacity of the serpentine mine.

(iii) For the year ended 31 December 2009*Results and financial position*

During the year, the Target Group was engaged in the single operating segment of the sales of serpentine in the PRC through the Longteng Group. The Target Group recorded revenue of approximately RMB50.3 million, representing an increase of approximately 289.9% compared with the previous year, which was mainly attributable to the acquisition of the Longteng Group in September 2008 and the increase in both sales volume and in average selling price of serpentine. Gross profit amounted to approximately RMB42.1 million, representing an improvement in gross margin to approximately 18.8% as compared with the previous year due to the installation of new power generation equipment in late 2008, which reduced electricity costs. Major expenses for the year included (i) administrative expenses of approximately RMB23.4 million that was primarily attributable to the high amount of Penalty Provision of approximately RMB17.9 million; and (ii) selling and distribution expenses of approximately RMB23.0, of which RMB21.6 million was attributable mainly to transportation expenses for the delivery of serpentine to customers, which increased by approximately 414.3% compared with the previous year due to the higher sales volume this year. As a result, the Target Group recorded a loss for the year of approximately RMB9.8 million.

Capital structure and liquidity

As at 31 December 2009, the Target Group held cash and cash equivalents of approximately RMB6.7 million, whereas bank borrowings amounted to approximately RMB10.0 million and other borrowings reduced to approximately RMB11.8 million, which led to the decrease in the gearing ratio of the Target Group, being total borrowings divided by total assets, to approximately 16.4%. The Target Group recorded net current liabilities of approximately RMB74.8 million, which was primarily attributable to (i) the Penalty Provision of approximately RMB47.2 million; (ii) amount due to a director of approximately RMB13.8 million which was incurred in 2008 to fund the acquisition of the Longteng Group; and (iii) trade and bills receivables which increased from approximately RMB7.9 million as at 31 December 2008 to approximately RMB13.8 million as at 31 December 2009 primarily due to the improvement in sales performances.

Significant investments, material acquisitions and disposals

During the year ended 31 December 2009, the Target Group acquired an additional equity interest in the Longteng Group of approximately 5.3% and held in total an equity interest in the Longteng Group of approximately 91.3% as at 31 December 2009. Save for the above, the Target Group did not

undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2009.

Employees and remuneration policy

The Target Group had 103 employees as at 31 December 2009. Total staff costs, including directors' remuneration, amounted to approximately RMB3.3 million for the year. On top of basic salaries, the Target Group provided retirement benefit scheme contributions to staffs during the year. The Target Group has no bonus or share option schemes.

Charges on assets

Apart from the MOU Pledge, the Target Group pledged certain of its (i) buildings, plant and machineries; and (ii) prepaid lease payments for the mining site located in the PRC in net book values of approximately RMB4.0 million and RMB16.0 million respectively to secure bank borrowings as at 31 December 2009.

Foreign exchange risk

During the year, all of the (i) operating revenue and expenses; (ii) cash and cash equivalents; and (iii) borrowings of the Target Group were denominated in RMB and therefore the Target Group is not exposed to foreign exchange risk save for remittance out of the PRC which is subject to the foreign exchange control restrictions imposed by the government of the PRC.

Contingent liabilities

The Target Group had no material contingent liabilities as at 31 December 2009.

Future plans and prospects

The Target Group will continue to allocate resources and investments for further development of the serpentine business, such as the increase in annual production capacity of the serpentine mine to 2.0Mt per annum in the near future.

(iv) For the three months ended 31 March 2010*Results and financial position*

During the period, the Target Group was engaged in the single operating segment of the sales of serpentine in the PRC. The Target Group recorded revenue of approximately RMB12.1 million, representing an increase of approximately 34.4% compared with the corresponding period in the previous year, which was mainly attributable to both the increased sales volume and the increase in average selling price of serpentine. Gross profit amounted to approximately RMB10.1 million, representing a gross margin of approximately 83.9%. Major expenses for the period included (i) selling and distribution expenses of approximately RMB4.1 million, of which RMB3.7 million was attributable to transportation expenses mainly for the delivery of serpentine to customers; and (ii) income tax expenses of approximately RMB1.4 million, which was calculated based on the Enterprise Income Tax rate of the PRC effective from 1 January 2008 of 25%. As a result, the Target Group recorded a profit for the period of approximately RMB2.5 million.

Capital structure and liquidity

As at 31 March 2010, the Target Group held cash and cash equivalents of approximately RMB11.7 million, whereas other borrowings further reduced to approximately RMB7.6 million but bank borrowings further increased to approximately RMB20.0 million, which led to the increase in the gearing ratio of the Target Group, being total borrowings divided by total assets, to approximately 35.0%. The Target Group recorded net current liabilities of approximately RMB71.6 million, which was primarily attributable to (i) the Penalty Provision of approximately RMB47.2 million; (ii) short term bank borrowings due within one year which increased from approximately RMB10.0 million as at 31 December 2009 to approximately RMB20.0 million as at 31 March 2010 for development of the serpentine mine; and (iii) trade and bills receivables which slightly increased from approximately RMB13.8 million as at 31 December 2009 to approximately RMB15.3 million as at 31 March 2010. Despite the Target Group recorded net current liabilities, Mr Zhang Jun, the ultimate beneficial owner and the sole director of Gold Strategy, will continue to provide financial support to the Target Group to meet its liabilities and commitments as and when they fall due before Completion. The sole director of Gold Strategy has also undertaken that he will not require repayment of amount due to him by the Target Group until the Target Group is financially capable of doing so.

Significant investments, material acquisitions and disposals

The Target Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the three months ended 31 March 2010.

Employees and remuneration policy

The Target Group had 103 employees as at 31 March 2010. Total staff costs, including directors' remuneration, amounted to approximately RMB0.7 million for the period. On top of basic salaries, the Target Group may also provided retirement benefit scheme contributions to staffs. The Target Group has no bonus or share option schemes.

Charges on assets

Apart from the MOU Pledge, the Target Group pledged certain of its (i) buildings, plant and machineries; and (ii) prepaid lease payments for the mining site located in the PRC in net book values of approximately RMB3.8 million and RMB16.0 million respectively to secure bank borrowings as at 31 March 2010.

Foreign exchange risk

During the period, all of the (i) operating revenue and expenses; (ii) cash and cash equivalents; and (iii) borrowings of the Target Group were denominated in RMB and therefore the Target Group is not exposed to foreign exchange risk save for remittance out of the PRC which is subject to the foreign exchange control restrictions imposed by the government of the PRC.

Contingent liabilities

The Target Group had no material contingent liabilities as at 31 March 2010.

Future plans and prospects

The Target Group will continue to allocate resources and investments for further development of the serpentine business, such as the increase in annual production capacity of the serpentine mine to 2.0Mt per annum in the near future.

2 FINANCIAL INFORMATION OF THE LONGTENG GROUP

2.1 ACCOUNTANTS' REPORT ON THE LONGTENG GROUP



SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

The Directors
Century Sunshine Group Holdings Limited
Unit 3907, 39/F., Cosco Tower
183 Queen's Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding 江蘇龍騰化工有限公司 (Jiangsu Longteng Petrochemical Company Limited) ("Jiangsu Longteng") and its subsidiaries (hereinafter collectively referred to as the "Jiangsu Group"), including the consolidated statements of financial position of the Jiangsu Group and the statement of financial position of Jiangsu Longteng as at 31 December 2007, 2008 and 2009 and 31 March 2010, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows and the notes thereto of the Jiangsu Group for each of the years ended 31 December 2007, 2008, 2009 and the three months ended 31 March 2010 (the "Relevant Periods") (the "Financial Information"), for inclusion in the circular of Century Sunshine Group Holdings Limited (the "Company") dated 25 September 2010 (the "Circular") in connection with the proposed acquisition of the entire equity interests in Gold Strategy Investments Limited ("Gold Strategy"), the intermediate holding company of Jiangsu Longteng, by Bright Stone Group Limited, a wholly-owned subsidiary of the Company (the "Proposed Acquisition").

Jiangsu Longteng was established in the People's Republic of China (the "PRC") with limited liability on 12 November 2003.

The directors of Jiangsu Longteng considered the ultimate holding company is Rising Dragon Management Limited ("Rising Dragon"), which was incorporated in the British Virgin Islands ("BVI"), and the immediate holding company is Fly Union Limited ("Fly Union") which was incorporated in Hong Kong.

As at the date of this report, the Jiangsu Group is principally engaged in mining and sales of serpentine. In prior years, the Jiangsu Group was also engaged in the manufacturing and sales of compound fertilizers and sulphuric acid which was discontinued on 21 June 2007 (Note 13).

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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As at the date of this report, the particulars of Jiangsu Longteng's subsidiary are as follows:

Name	Place and date of establishment/ operation	Registered capital	Equity interest attributable to the Jiangsu Group	Principal activity
連雲港龍游物流有限公司	The PRC/ 10 January 2006	RMB 1,300,000	100%	Provision for internal logistic services

All the companies comprising the Jiangsu Group have adopted 31 December as their financial year end date.

Except for the years ended 31 December 2008 and 2009 of Jiangsu Longteng, no statutory audited financial statements of the PRC companies comprising the Jiangsu Group have been prepared for each of the years ended 31 December 2007, 2008 and 2009 and for the three months ended 31 March 2010 since there is no such statutory requirement.

The statutory audited financial statements of Jiangsu Longteng for the years ended 31 December 2008 and 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP"). For each of the years ended 31 December 2008 and 2009, the statutory financial statements of Jiangsu Longteng were audited by 連雲港道勤會計師事務所有限公司 and 連雲港譽達聯合會計師事務所 respectively, both are certified public accountants registered in the PRC.

For the purpose of this report, the directors of Jiangsu Longteng have prepared the consolidated financial statements of the Jiangsu Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

We were engaged to audit on the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information of the Jiangsu Group as set out in this report for inclusion in the Circular has been prepared from the Underlying Financial Statements without adjustments. We have examined the Financial Information and have carried out such additional procedures as considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountants" as recommended by the HKICPA.

Respective responsibilities of directors and reporting accountants

The directors of Jiangsu Longteng are responsible for the preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, that the judgements and estimates made are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated. The directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Basis for disclaimer of opinion

(a) Interest in and gain on disposal of a jointly controlled entity

- (i) As at 31 December 2007, the Jiangsu Group and Jiangsu Longteng had 30% equity interest in a jointly-controlled entity, namely 江蘇昊美化工有限公司 (“昊美化工”). The directors of Jiangsu Longteng accounted for the Jiangsu Group’s and Jiangsu Longteng’s share of results of the jointly controlled entity for the year ended 31 December 2007 and interest in the jointly controlled entity as at 31 December 2007 based on unaudited management accounts of 昊美化工 for the year ended 31 December 2007. Due to lack of complete books and records of 昊美化工, we were unable to carry out audit procedures necessary to obtain adequate assurance on the financial information of 昊美化工. As a result, we are unable to determine whether the interest in the jointly controlled entity as at 31 December 2007 and share of results of the jointly controlled entity for the year ended 31 December 2007 are fairly stated. Any adjustment to the figures may have a consequential significant effect on the loss for the year ended 31 December 2007 of the Jiangsu Group and net liabilities of the Jiangsu Group and Jiangsu Longteng as at 31 December 2007.

- (ii) On 15 August 2008 (the “Disposal Date”), the Jiangsu Group disposed of its interest in 昊美化工 to a former shareholding company of Jiangsu Longteng, 江蘇君臣實業集團有限公司 (“江蘇君臣實業”). After the disposal, the Jiangsu Group and Jiangsu Longteng no longer have access to the accounting records of 昊美化工 and we were unable to obtain sufficient audit evidence regarding the value of the net assets or liabilities of 昊美化工 disposed of by the Jiangsu Group at the Disposal Date and hence the gain on disposal arising therefrom. Any adjustments found to be necessary would affect the amount recorded in the consolidated statement of comprehensive income in respect of 昊美化工 up to the Disposal Date, with a corresponding effect on the gain on disposal for the year ended 31 December 2008.

(b) Significant uncertainty relating to the going concern basis

We have considered the net current liabilities position of the Jiangsu Group and Jiangsu Longteng of approximately RMB61,051,000 and RMB63,435,000 and net liabilities position of the Jiangsu Group and Jiangsu Longteng of approximately RMB37,400,000 and RMB39,703,000 as at 31 December 2009 respectively. We have also considered the net current liabilities position of the Jiangsu Group and Jiangsu Longteng of approximately RMB57,842,000 and RMB60,332,000 and net liabilities position of the Jiangsu Group and Jiangsu Longteng of approximately RMB34,788,000 and RMB37,108,000 as at 31 March 2010 respectively and the adequacy of the disclosures made in Note 1 to the Financial Information concerning the adoptions of going concern basis on which the Financial Information has been prepared. The Financial Information has been prepared on a going concern basis. The validity of which is dependent upon the successful outcome of the measures undertaken as described in Note 1 to the Financial Information to ensure that adequate cash resources are available to the Jiangsu Group and Jiangsu Longteng to enable it to meet its future working capital and financial requirements. The Financial Information does not include any adjustments that would result from the failure of such measures.

If the going concern basis is not appropriate, adjustments would have been made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustment may have a significant consequential effect on the loss for the year ended 31 December 2009 and the profit for the three months ended 31 March 2010 of the Jiangsu Group and net liabilities of the Jiangsu Group and Jiangsu Longteng as at 31 December 2009 and 31 March 2010. We consider that appropriate disclosures have been made but because of the significant uncertainty relating to whether the going concern basis adopted in the Financial Information is appropriate, we have disclaimed our opinion.

Disclaimer of opinion: disclaimer on view given by the Financial Information

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the Financial Information as to whether the Financial Information gives a true and fair view of the state of affairs of the Jiangsu Group and Jiangsu Longteng as at 31 December 2007, 2008 and 2009 and 31 March 2010 and of these results and cash flows of the Jiangsu Group for each of the Relevant Periods in accordance with HKFRSs.

Review conclusion

The comparative consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for the three months ended 31 March 2009 together with the notes thereon have been extracted from the Jiangsu Group's financial information for the same period (the "31 March 2009 Financial Information"), which was prepared by the directors of Jiangsu Longteng solely for the purpose of this report. It is our responsibility to form an independent conclusion, based

on our review, and to report our conclusion to you. For the purpose of this report, we have reviewed the 31 March 2009 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by Independent Auditor of the Entity” issued by the HKICPA.

Our review consists principally of making enquiries of the Jiangsu Group’s management and applying analytical procedures to the 31 March 2009 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 31 March 2009 Financial Information.

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we were unable to reach a review conclusion as to whether material modifications should be made to the 31 March 2009 Financial Information.

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Three months ended	
		2007	2008	2009	31 March	2010
NOTES		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
CONTINUING OPERATION						
Revenue	8	42,438	40,320	50,316	8,985	12,062
Cost of sales		(10,606)	(8,543)	(8,179)	(1,083)	(1,942)
Gross profit		31,832	31,777	42,137	7,902	10,120
Other income and gains	8	508	3,827	227	39	45
Selling and distribution expenses		(19,780)	(20,425)	(23,048)	(5,229)	(4,129)
Administrative expenses		(11,994)	(28,333)	(23,411)	(773)	(1,025)
Impairment loss recognised in respect of amounts due from a minority shareholder and a former shareholder		(36,327)	-	-	-	-
Finance costs	9	(86)	(2,675)	(2,719)	(1,428)	(1,117)
(Loss) profit before tax	10	(35,847)	(15,829)	(6,814)	511	3,894
Income tax expenses	11	(3,079)	(429)	(3,009)	(313)	(1,400)
(Loss) profit for the year/ period from continuing operation		(38,926)	(16,258)	(9,823)	198	2,494
DISCONTINUED OPERATIONS						
Profit for the year from discontinued operations	13	6,676	-	-	-	-
(Loss) profit and total comprehensive (expenses) income for the year/ period		(32,250)	(16,258)	(9,823)	198	2,494

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31
		2007	2008	2009	March
	NOTES	RMB'000	RMB'000	RMB'000	2010
					RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	16	5,059	4,930	6,174	5,793
Prepaid lease payments	17	16,385	16,047	15,709	15,625
Mining right	18	3,734	3,349	2,964	2,868
Interest in a jointly controlled entity	19	1,600	–	–	–
		<u>26,778</u>	<u>24,326</u>	<u>24,847</u>	<u>24,286</u>
CURRENT ASSETS					
Inventories	20	2,630	3,829	2,543	3,056
Trade and bills receivables	21	7,450	7,944	13,768	15,308
Prepaid lease payments	17	338	338	338	338
Other receivables, deposits and prepayments		3,701	1,685	1,315	1,094
Amount due from a jointly controlled entity	22	4,173	–	–	–
Amounts due from a minority shareholder and a former shareholder	22	–	–	–	–
Pledged bank deposits	23	8,140	–	–	–
Cash and cash equivalents	24	1,880	5,778	6,583	11,590
		<u>28,312</u>	<u>19,574</u>	<u>24,547</u>	<u>31,386</u>
CURRENT LIABILITIES					
Trade and bills payables	25	13,476	1,152	1,392	1,025
Other payables and accruals		23,705	13,621	12,580	11,284
Provision for over-extraction penalty	26	7,994	29,317	47,191	47,191
Bank borrowings	27	4,000	–	10,000	20,000
Other borrowings – due within one year	28	6,464	20,224	11,826	7,475
Tax payable		6,913	1,815	2,609	2,253
		<u>62,552</u>	<u>66,129</u>	<u>85,598</u>	<u>89,228</u>
NET CURRENT LIABILITIES		<u>(34,240)</u>	<u>(46,555)</u>	<u>(61,051)</u>	<u>(57,842)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(7,462)</u>	<u>(22,229)</u>	<u>(36,204)</u>	<u>(33,556)</u>

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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		As at 31 December			As at 31
		2007	2008	2009	March
		RMB'000	RMB'000	RMB'000	2010
NOTES					RMB'000
NON-CURRENT LIABILITIES					
Other borrowings – due after					
one year	28	2,456	4,020	–	–
Long-term payables	29	2,226	1,730	1,196	1,232
		<u>4,682</u>	<u>5,750</u>	<u>1,196</u>	<u>1,232</u>
NET LIABILITIES		<u>(12,144)</u>	<u>(27,979)</u>	<u>(37,400)</u>	<u>(34,788)</u>
CAPITAL AND RESERVES					
Paid in capital	30	14,160	14,160	14,160	14,160
Reserves		<u>(26,304)</u>	<u>(42,139)</u>	<u>(51,560)</u>	<u>(48,948)</u>
CAPITAL DEFICIENCY		<u>(12,144)</u>	<u>(27,979)</u>	<u>(37,400)</u>	<u>(34,788)</u>

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 March
		2007	2008	2009	2010
	NOTES	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	16	4,013	4,194	4,955	4,663
Prepaid lease payments	17	16,385	16,047	15,709	15,625
Mining right	18	3,734	3,349	2,964	2,868
Interest in a jointly controlled entity	19	1,600	–	–	–
Investments in subsidiaries	35	3,770	3,900	1,300	1,300
		<u>29,502</u>	<u>27,490</u>	<u>24,928</u>	<u>24,456</u>
CURRENT ASSETS					
Inventories	20	2,630	3,829	2,543	3,056
Trade and bills receivables	21	7,450	7,944	13,768	15,308
Prepaid lease payments	17	338	338	338	338
Other receivables, deposits and prepayments		3,656	1,675	1,312	1,082
Amount due from a jointly controlled entity	22	4,173	–	–	–
Amounts due from a minority shareholder and a former shareholder	22	–	–	–	–
Pledged bank deposits	23	8,140	–	–	–
Cash and cash equivalents	24	1,809	5,732	6,542	11,563
		<u>28,196</u>	<u>19,518</u>	<u>24,503</u>	<u>31,347</u>
CURRENT LIABILITIES					
Trade and bills payables	25	13,476	1,152	1,392	1,025
Other payables and accruals		23,662	13,580	12,477	11,225
Provision for over-extraction penalty	26	7,994	29,317	47,191	47,191
Amounts due to subsidiaries	22	4,524	5,962	3,184	3,256
Bank borrowings	27	4,000	–	10,000	20,000
Other borrowings – due within one year	28	6,464	20,224	11,826	7,475
Tax payable		6,266	1,120	1,868	1,507
		<u>66,386</u>	<u>71,355</u>	<u>87,938</u>	<u>91,679</u>
NET CURRENT LIABILITIES		<u>(38,190)</u>	<u>(51,837)</u>	<u>(63,435)</u>	<u>(60,332)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(8,688)</u>	<u>(24,347)</u>	<u>(38,507)</u>	<u>(35,876)</u>

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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		As at 31 December			As at 31
		2007	2008	2009	March
		RMB'000	RMB'000	RMB'000	2010
NOTES					RMB'000
NON-CURRENT LIABILITIES					
Other borrowings – due after					
one year	28	2,456	4,020	–	–
Long-term payables	29	<u>2,226</u>	<u>1,730</u>	<u>1,196</u>	<u>1,232</u>
		<u>4,682</u>	<u>5,750</u>	<u>1,196</u>	<u>1,232</u>
NET LIABILITIES		<u>(13,370)</u>	<u>(30,097)</u>	<u>(39,703)</u>	<u>(37,108)</u>
CAPITAL AND RESERVES					
Paid in capital	30	14,160	14,160	14,160	14,160
Reserves		<u>(27,530)</u>	<u>(44,257)</u>	<u>(53,863)</u>	<u>(51,268)</u>
CAPITAL DEFICIENCY		<u>(13,370)</u>	<u>30,097</u>	<u>(39,703)</u>	<u>(37,108)</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid in capital RMB'000	PRC statutory reserve RMB'000 (Note 1)	Safety fund RMB'000 (Note 2)	Retained profits/ (accumulated losses) RMB'000	Total equity RMB'000
As at 1 January 2007	14,160	1,405	–	4,541	20,106
Loss and total comprehensive expenses for the year	–	–	–	(32,250)	(32,250)
Transfer	–	2,436	–	(2,436)	–
As at 31 December 2007 and 1 January 2008	14,160	3,841	–	(30,145)	(12,144)
Loss and total comprehensive expenses for the year	–	–	–	(16,258)	(16,258)
Appropriation of safety fund	–	–	430	–	430
Utilisation of safety fund	–	–	(7)	–	(7)
Transfer	–	728	–	(728)	–
As at 31 December 2008 and 1 January 2009	14,160	4,569	423	(47,131)	(27,979)
Loss and total comprehensive expenses for the year	–	–	–	(9,823)	(9,823)
Deregistration of a subsidiary (Note 12)	–	(23)	–	23	–
Appropriation of safety fund	–	–	435	–	435
Utilisation of safety fund	–	–	(33)	–	(33)
Transfer	–	811	–	(811)	–
As at 31 December 2009 and 1 January 2010	14,160	5,357	825	(57,742)	(37,400)
Profit and total comprehensive income for the period	–	–	–	2,494	2,494
Appropriation of safety fund	–	–	136	–	136
Utilisation of safety fund	–	–	(18)	–	(18)
As at 31 March 2010	<u>14,160</u>	<u>5,357</u>	<u>943</u>	<u>(55,248)</u>	<u>34,788</u>
As at 1 January 2009	14,160	4,569	423	(47,131)	(27,979)
Profit and total comprehensive income for the period	–	–	–	198	198
As at 31 March 2009	<u>14,160</u>	<u>4,569</u>	<u>423</u>	<u>(46,933)</u>	<u>(27,781)</u>

Notes:

- 1) The PRC statutory reserve is non-distributable and the transfer to this reserve is determined by the board of directors in accordance with the relevant laws and regulations of the PRC. This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.
- 2) Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund. The fund can be used for improvements of safety at the mines and construction sites and is not available for distribution to owner.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Operating activities					
(Loss) profit before tax:					
– Continuing operation	(35,847)	(15,829)	(6,814)	511	3,894
– Discontinued operations (Note 13)	10,680	–	–	–	–
	(25,167)	(15,829)	(6,814)	511	3,894
Adjustments for:					
– Interest income	(55)	(137)	(23)	(8)	(11)
– Finance costs	86	2,675	2,719	1,428	1,117
– Depreciation and amortisation	1,747	2,158	2,003	469	561
– Provision for safety fund	353	430	435	–	136
– (Gain) loss on disposal of property, plant and equipment	(19,355)	442	(13)	–	–
– Gain on deregistration of subsidiary	–	–	(18)	–	–
– Gain on disposal of a jointly controlled entity	–	(503)	–	–	–
– Provision for over-extraction penalty	7,994	21,323	17,874	–	–
– Impairment loss recognised in respect of amounts due from a minority shareholder and a former shareholder	36,327	–	–	–	–
Operating cash flows before movements in working capital	1,930	10,559	16,163	2,400	5,697
Decrease (increase) in inventories	23,788	(1,199)	1,286	(32)	(513)
Decrease (increase) in trade and bill receivables	3,601	(494)	(5,824)	(3,483)	(1,540)
Decrease in other receivables, deposits and prepayments	12,659	2,016	370	241	221
Increase (decrease) in trade and bill payables	5,523	(12,324)	240	264	(367)
(Decrease) increase in other payables and accruals	(3,522)	(10,091)	(1,060)	5,648	(1,314)
(Increase) decrease in pledged bank deposits	(8,140)	8,140	–	–	–
Cash generated from (used in) operations	35,839	(3,393)	11,175	5,038	2,184
Income tax paid	(290)	(7,027)	(2,215)	(521)	(1,756)
Tax refund	–	1,500	–	–	–
Net cash generated from (used in) operating activities	35,549	(8,920)	8,960	4,517	428

	Year ended 31 December			Three months ended	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Investing activities					
Proceeds from disposal of property, plant and equipment	28,105	490	37	–	–
Interest received	39	137	23	8	11
Increase in amounts due from a minority shareholder and a former shareholder	(36,327)	–	–	–	–
Increase in prepaid lease payments	(16,892)	–	–	–	–
Purchase of property, plant and equipment	(4,148)	(2,238)	(2,548)	(178)	–
(Increase) decrease in amount due from a jointly controlled entity	(2,992)	4,173	–	–	–
Additions to mining right	(954)	(720)	(720)	–	–
Proceeds from disposal of a jointly controlled entity	–	2,103	–	–	–
Net cash (used in) generated from investing activities	<u>(33,169)</u>	<u>3,945</u>	<u>(3,208)</u>	<u>(170)</u>	<u>11</u>
Financing activities					
Repayment of bank borrowings	(19,000)	(5,780)	–	–	–
Repayment of other borrowings	(4,387)	(9,832)	(18,015)	(7,135)	(8,099)
Interest paid	(86)	(1,929)	(2,323)	(1,323)	(1,063)
Bank borrowings raised	12,000	1,780	10,000	–	10,000
Other borrowings raised	6,657	24,634	5,391	3,280	3,730
Net cash (used in) generated from financing activities	<u>(4,816)</u>	<u>8,873</u>	<u>(4,947)</u>	<u>(5,178)</u>	<u>4,568</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,436)</u>	<u>3,898</u>	<u>805</u>	<u>(831)</u>	<u>5,007</u>
Cash and cash equivalents at the beginning of the year/period	<u>4,316</u>	<u>1,880</u>	<u>5,778</u>	<u>5,778</u>	<u>6,583</u>
Cash and cash equivalents at the end of the year/ period	<u><u>1,880</u></u>	<u><u>5,778</u></u>	<u><u>6,583</u></u>	<u><u>4,947</u></u>	<u><u>11,590</u></u>

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PREPARATION

General information

Jiangsu Longteng was established in the PRC on 12 November 2003 with paid in capital of RMB14,160,000 as at 31 March 2010. The registered office and principal place of business of the Jiangsu Group is situated at Xugou, Shanzuokou Town, Donghai County, Lianyungang, Jiangsu, the PRC.

The Jiangsu Group is principally engaged in mining and sales of serpentine during the Relevant Periods. In prior years, the Jiangsu Group was also engaged in manufacturing and sales of compound fertilizers and sulphuric acid which was discontinued on 21 June 2007.

The Financial Information is presented in Renminbi ("RMB"), which is same as the functional currency of the Jiangsu Group.

The directors of Jiangsu Longteng considered the ultimate, intermediate and immediate holding companies are Rising Dragon, Gold Strategy and Fly Union, respectively.

Basis of preparation

As at 31 December 2009, the Jiangsu Group and Jiangsu Longteng had net current liabilities of approximately RMB61,051,000 and RMB63,435,000 and net liabilities of approximately RMB37,400,000 and RMB39,703,000 respectively. As at 31 March 2010, the Jiangsu Group and Jiangsu Longteng had net current liabilities of approximately RMB57,842,000 and RMB60,332,000 and net liabilities of approximately RMB34,788,000 and RMB37,108,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Jiangsu Group's and Jiangsu Longteng's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the directors of Jiangsu Longteng are of the opinion that the Jiangsu Group and Jiangsu Longteng will have sufficient working capital to meet their financial obligations as and when they fall due for the next twelve months from 31 March 2010 given that:

- (i) Mr Zhang Jun, the ultimate beneficial owner of the Jiangsu Group and Jiangsu Longteng, will continue to provide financial support to the Jiangsu Group and Jiangsu Longteng to meet their liabilities and commitments as and when they fall due;
- (ii) the directors of Jiangsu Longteng anticipates that the Jiangsu Group and Jiangsu Longteng will generate positive cash flows from its operations; and
- (iii) the Company has agreed to provide financial support to the Jiangsu Group and Jiangsu Longteng to enable it to meet their financial obligations as they fall due for the foreseeable future upon completion of the Proposed Acquisition.

Accordingly, the directors are of the opinion that it is appropriate to prepare the Financial Information on a going concern basis. Should the Jiangsu Group and Jiangsu Longteng be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the Financial Information.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Jiangsu Group has applied, for the first time, all of the Hong Kong Accounting Standards (“HKASs”), HKFRSs, amendments and interpretations (“INT”) (hereinafter collectively referred to as “new and revised HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for the Relevant Periods.

The Jiangsu Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC)-INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standards requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Jiangsu Group’s financial assets.

The directors of Jiangsu Longteng anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information have been prepared on the historical cost basis as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of Jiangsu Longteng and entities controlled by Jiangsu Longteng (its subsidiaries). Control is achieved where Jiangsu Longteng has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Jiangsu Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

In Jiangsu Longteng's statement of financial position, the investments in subsidiaries are stated at cost less any identified impairment losses.

Jointly controlled entity

Joint venture arrangement that involves the establishment of a separate entity in which venturers have joint control over the economic activities of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of a jointly controlled entity are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investment in a jointly controlled entity are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Jiangsu Group's share of the net assets of a jointly controlled entity, less any identified impairment loss. When the Jiangsu Group's share of losses of a jointly controlled entity equals or exceeds its interest in that the jointly controlled entity, the Jiangsu Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Jiangsu Group has incurred legal and constructive obligations or made payments on behalf of that the jointly controlled entity.

Where a group entity transacts with a jointly controlled entity of the Jiangsu Group, profits or losses are eliminated to the extent of the Jiangsu Group's interest in the jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or service, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Jiangsu Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payments

Payment for obtaining land use right is considered as prepaid lease payments. Prepaid lease payments are stated at cost less accumulated amortisation and any accumulated impairment losses, amortisation is charged to profit or loss over the period of the rights or the term of the respective enterprise to which the prepaid lease payments are granted, whichever is the shorter, using the straight-line method.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Mining right

Mining right that are acquired by the Jiangsu Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses and amortised over the shorter of the unexpired period of the mining right on the straight line basis and estimated useful lives of mines. Amortisation of mining rights with finite useful lives is charged to profit or loss on a straight-line basis from the date they are available for use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Impairment losses on tangible assets and mining right

At the end of each reporting period, the Jiangsu Group reviews the carrying amounts of its tangible assets and mining right to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years/ period. A reversal of an impairment loss is recognised as income immediately.

Retirement benefit costs

Payments to state-managed retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowings costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Jiangsu Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Jiangsu Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Income tax expenses

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/ period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Jiangsu Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Jiangsu Group's financial assets are mainly classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables and deposits, amounts due from a jointly controlled entity, a minority shareholder and a former shareholder, pledged bank deposits and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all of the Jiangsu Group's financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets such as, trade and bills receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Jiangsu Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period from 90 to 180 days, observable changes in national or local conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Jiangsu Group after deducting all of its liabilities. The Jiangsu Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, bank and other borrowings and long-term payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Jiangsu Longteng are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Jiangsu Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provision

Provisions are recognised when the Jiangsu Group has a present obligation as a result of a past event, and it is probable that the Jiangsu Group will be required to settle that obligation. Provisions including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Jiangsu Group's accounting policies which are described in Note 3, the directors of Jiangsu Longteng are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 period.

Critical judgements in applying the entity's accounting policies

The followings are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Jiangsu Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Estimated renewal of operating lease of buildings located at the production plant and serpentine mine

All buildings located at the production plant and serpentine mine were owned by a state-owned enterprise ("江蘇省東海蛇紋石礦"). The normal operation of manufacturing of serpentine is subjected to successful renewal for the operating lease of buildings in the plant and the serpentine mine. The Jiangsu Group was still in the process of the negotiation regarding the renewal of lease term commencing from 2009 as at the date of the Circular. In the opinion of the directors of Jiangsu Longteng, the Jiangsu Group did not expect to have any major obstacles in the renewal of the operating lease of buildings in the plant and the serpentine mine.

Going concern consideration

The assessment of the going concern assumption involves making a judgement by the directors of Jiangsu Longteng, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of Jiangsu Longteng consider that the Jiangsu Group and Jiangsu Longteng have the ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in Note 1.

In addition, the actual mining production volume of the Jiangsu Group has exceeded the maximum mining production capacity as stipulated in its mining licence during the years ended 31 December 2007, 2008 and 2009. The PRC lawyer advised that the Jiangsu Group may be subject to a risk of mining licence being revoked for its non-compliance with the production capacity as stipulated in the mining licence in accordance with the relevant rules and regulations of the PRC. The directors of Jiangsu Longteng advised that, up to the date of this report, the mining licence of the Jiangsu Group is still valid and are confident that the Jiangsu Group is able to continue its business as a going concern in the foreseeable future.

Key sources of estimation uncertainty

The followings are 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.

Income taxes expenses

The Jiangsu Group is subject to enterprise income taxes in the PRC. Significant judgement is required in determining the provision for income tax, as the calculations of which depend on the ultimate tax determination and are subject to uncertainty. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses in the year/ period in which such determination is made.

Estimation allowances for inventories

The management estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Jiangsu Group carries out an inventory review at the end of each of the reporting period and makes allowance in obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an impairment may arise.

Estimated impairment of property, plant and equipment, prepayment lease payment and mining right

The Jiangsu Group evaluates whether property, plant and equipment, prepaid lease payment and mining right have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units represent the higher of the asset's fair value less costs to sell or its value-in-use. The calculations of fair value less costs to sell or value-in-use require the use of estimates.

Estimated useful lives of property, plant and equipment and mining right

The Jiangsu Group's management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and mining right. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and mining rights of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Management will increase the depreciation and amortisation charge when useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Estimated impairment loss of trade and bills receivable

When there is objective evidence of impairment loss, the Jiangsu Group takes into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Estimated land restoration and environmental costs

To date, the Jiangsu Group has not incurred a significant expenditure for land restoration and environmental remediation and is currently not involved in any land restoration and environmental remediation. The Jiangsu Group has deposited the amounts for land restoration and environmental remediation relating to its serpentine mining operations in Donghai County, Jiangsu Province, the PRC. Under existing legislation and regulations of the PRC, directors of Jiangsu Longteng believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Jiangsu Group. The PRC government has moved and may move further towards more rigorous enforcement of applicable laws and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Jiangsu Group's ability to estimate the ultimate cost of land restoration and environmental remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to serpentine mining;; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative land restoration and environmental remediation strategies; and (iv) changes in land restoration and environmental remediation requirements. The amount of such future costs is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present, and could be material. The Jiangsu Group's deposit for land restoration and environmental costs under the relevant existing rules and regulations amounted to approximately RMB521,000, RMB521,000, RMB621,000 and RMB621,000 as at 31 December 2007, 2008 and 2009 and 31 March 2010, respectively.

Estimated impairment loss of amounts due from a minority shareholder and a former shareholder

The policy for making impairment loss on amounts due from a minority shareholder and a former shareholder of the Jiangsu Group is based on the evaluation of collectability of accounts and on management's judgment. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables. Provision for impairment loss on amounts due from a minority shareholder and a former shareholder amounted to approximately RMB36,327,000 as at 31 December 2007 and 2008 and 2009 and 31 March 2010

Provision for over-extraction penalty

During the Relevant Periods, the actual mining production volume of the Jiangsu Group has exceeded the maximum mining production capacity as stipulated in its mining licence. The PRC lawyer advised that the Jiangsu Group may be subject to potential penalties and a risk of mining licence being revoked for its non-compliance with the production capacity as stipulated in the mining licence in accordance with the relevant rules and regulations of the PRC. The directors of the Jiangsu Group advised that, up to the date of this report, the PRC authorities have not issued any notice of penalties against the Jiangsu Group but the mining licence of the Jiangsu Group is still valid. After having sought the PRC legal opinion, the directors of the Jiangsu Group have provided for over-extraction penalty in amounts of RMB7,994,000, RMB21,323,000 and RMB17,874,000 for the years ended 31 December 2007, 2008 and 2009 respectively.

5. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

The Jiangsu Group	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	23,542	14,573	21,143	27,737
Financial liabilities				
Other financial liabilities at amortised cost	43,716	40,609	36,620	40,060
Jiangsu Longteng	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	23,301	14,524	21,097	27,698
Financial liabilities				
Other financial liabilities at amortised cost	49,350	46,529	39,700	43,276

b. Financial risk management objectives and policies

The Jiangsu Group's and Jiangsu Longteng's major financial instruments include trade and bills receivables, other receivables and deposits, amounts due from a jointly controlled entity, a minority shareholder and a former shareholder, pledged bank deposits, cash and cash equivalents, trade and bills payables, other payables and accruals, bank and other borrowings and long-term payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of Jiangsu Longteng manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Interest rate risk

The Jiangsu Group and Jiangsu Longteng is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, bank borrowings and other borrowings (see notes 23, 27 and 28 respectively for details). The Jiangsu Group and Jiangsu Longteng historically has not used any financial instruments to hedge potential fluctuations in interest rates.

The Jiangsu Group and Jiangsu Longteng is also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing market rate. However, such exposure is minimal to the Jiangsu Group as the bank balances are all short-term in nature.

(ii) *Credit risk*

The Jiangsu Group's and Jiangsu Longteng's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position.

The Jiangsu Group's and Jiangsu Longteng's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% of trade receivables as at 31 December 2007, 2008, 2009 and 31 March 2010.

In order to minimise the credit risk, the Jiangsu Group and Jiangsu Longteng reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of Jiangsu Longteng consider that the credit risk of the Jiangsu Group and Jiangsu Longteng is significantly reduced.

At the end of each reporting period, the Jiangsu Group has concentration of credit risk of total trade receivables as follows:

The Jiangsu Group and Jiangsu Longteng

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	(Unaudited)				
Due from the Jiangsu Group's and Jiangsu Longteng's the largest debtor	33%	43%	58%	38%	40%
Due from the Jiangsu Group's and Jiangsu largest five debtors	85%	91%	85%	92%	89%

(iii) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Jiangsu Group and Jiangsu Longteng aims to maintain flexibility in funding by keeping adequate facilities available.

The Jiangsu Group is exposed to liquidity risk as the Jiangsu Group had net liabilities and capital deficiency of approximately RMB37,400,000 and RMB34,788,000 as at 31 December 2009 and 31 March 2010, respectively. The liquidity of the Jiangsu Group primarily depends on the future funding being available and the ability of the Jiangsu Group to meet its financial obligations as they fall due. Details of which are set out in Note 1.

The table below analyses the Jiangsu Group's and Jiangsu Longteng's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The following table details the remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Jiangsu Group and Jiangsu Longteng can be required to pay:

The Jiangsu Group

	On demand or within one year <i>RMB'000</i>	More than one year less than two years <i>RMB'000</i>	More than two years less than five years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2007					
Bank borrowings	4,211	–	–	4,211	4,000
Other borrowings	6,837	3,193	–	10,030	8,920
Trade and bills payables	13,476	–	–	13,476	13,476
Other payables and accruals	15,094	–	–	15,094	15,094
Long-term payables	–	720	2,160	2,880	2,226
	<u>39,618</u>	<u>3,913</u>	<u>2,160</u>	<u>45,691</u>	<u>43,716</u>

	On demand or within one year <i>RMB'000</i>	More than one year less than two years <i>RMB'000</i>	More than two years less than five years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2008					
Other borrowings	21,814	4,839	–	26,653	24,244
Trade and bills payables	1,152	–	–	1,152	1,152
Other payables and accruals	13,483	–	–	13,483	13,483
Long-term payables	–	720	1,440	2,160	1,730
	<u>36,449</u>	<u>5,559</u>	<u>1,440</u>	<u>43,448</u>	<u>40,609</u>

	On demand or within one year <i>RMB'000</i>	More than one year less than two years <i>RMB'000</i>	More than two years less than five years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2009					
Bank borrowings	10,531	–	–	10,531	10,000
Other borrowings	12,037	–	–	12,037	11,826
Trade and bills payables	1,392	–	–	1,392	1,392
Other payables and accruals	12,206	–	–	12,206	12,206
Long-term payables	–	720	720	1,440	1,196
	<u>36,166</u>	<u>720</u>	<u>720</u>	<u>37,606</u>	<u>36,620</u>

	On demand or within one year <i>RMB'000</i>	More than one year less than two years <i>RMB'000</i>	More than two years less than five years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 March 2010					
Bank borrowings	21,062	–	–	21,062	20,000
Other borrowings	8,029	–	–	8,029	7,475
Trade and bills payables	1,025	–	–	1,025	1,025
Other payables and accruals	10,328	–	–	10,328	10,328
Long-term payables	–	720	720	1,440	1,232
	<u>40,444</u>	<u>720</u>	<u>720</u>	<u>41,884</u>	<u>40,060</u>

Jiangsu Longteng

	On demand or within one year <i>RMB'000</i>	More than one year less than two years <i>RMB'000</i>	More than two years less than five years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
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At 31 December 2007

Bank borrowings	4,211	–	–	4,211	4,000
Other borrowings	6,837	3,193	–	10,030	8,920
Trade and bills payables	13,476	–	–	13,476	13,476
Other payables and accruals	20,728	–	–	20,728	20,728
Long-term payables	–	720	2,160	2,880	2,226
	<u>45,252</u>	<u>3,913</u>	<u>2,160</u>	<u>51,325</u>	<u>49,350</u>

	On demand or within one year <i>RMB'000</i>	More than one year less than two years <i>RMB'000</i>	More than two years less than five years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
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At 31 December 2008

Other borrowings	21,814	4,839	–	26,653	24,244
Trade and bills payables	1,152	–	–	1,152	1,152
Other payables and accruals	19,403	–	–	19,403	19,403
Long-term payables	–	720	1,440	2,160	1,730
	<u>42,369</u>	<u>5,559</u>	<u>1,440</u>	<u>49,368</u>	<u>46,529</u>

	On demand or within one year <i>RMB'000</i>	More than one year less than two years <i>RMB'000</i>	More than two years less than five years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2009					
Bank borrowings	10,531	–	–	10,531	10,000
Other borrowings	12,037	–	–	12,037	11,826
Trade and bills payables	1,392	–	–	1,392	1,392
Other payables and accruals	15,286	–	–	15,286	15,286
Long-term payables	–	720	720	1,440	1,196
	<u>39,246</u>	<u>720</u>	<u>720</u>	<u>40,686</u>	<u>39,700</u>
At 31 March 2010					
Bank borrowings	21,062	–	–	21,062	20,000
Other borrowings	8,029	–	–	8,029	7,475
Trade and bills payables	1,025	–	–	1,025	1,025
Other payables and accruals	13,544	–	–	13,544	13,544
Long-term payables	–	720	720	1,440	1,232
	<u>43,660</u>	<u>720</u>	<u>720</u>	<u>45,100</u>	<u>43,276</u>

c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

The directors of Jiangsu Longteng consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

6. CAPITAL RISK MANAGEMENT

The primary objective of the Jiangsu Group's capital management is to safeguard the Jiangsu 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 capital structure of the Jiangsu Group consists of debts, which included the bank borrowings disclosed in note 27, other borrowings disclosed in note 28, long-term payables disclosed in note 29, cash and cash equivalents and capital deficiency attributable to owners of Jiangsu Longteng, comprising issued share capital and reserves.

The directors of Jiangsu Longteng review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors, the Jiangsu Group will balance its overall capital structure through new share issues and borrowing.

There is no change in the capital risk management policy adopted by the Jiangsu Group during the Relevant Periods.

7. SEGMENT INFORMATION

The Jiangsu Group has adopted HKFRS 8 Operating Segments throughout the Relevant Periods. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Jiangsu Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

All of the revenue and operating results of the Jiangsu Group for the Relevant Periods and the three months ended 31 March 2009 are derived in the PRC and information reported to the management of the Jiangsu Group for the purposes of resource allocation and assessment of performance is more specifically focused on the category of business. The Jiangsu Group's reportable segments under HKFRS 8 are therefore as follows:

- Sales of serpentine
- Sales of sulphuric acid (discontinued in the year of 2007)
- Sales of compound fertilizers (discontinued in the year of 2007)

The Group was involved in the manufacture and sale of sulphuric acid and compound fertilizers, which were reported as separate reportable segments. Those operations were discontinued with effect from 21 June 2007 (see note 13).

After the discontinued operations of manufacture and sale of sulphuric acid and compound fertilizers segments, the sole principal activity of the Jiangsu Group is sales of serpentine for the Relevant Periods. All the Group's operations are located and carried out in the PRC. In the opinion of the directors, the chief operation decision maker of the Jiangsu Group, the Jiangsu Group operated in a single operating segment. Accordingly, no segmental analysis has been presented.

Segment revenue and results

The segment revenue and results of the single continuing operating segment, sales of serpentine, is presented in the consolidated statement of comprehensive income.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Segment assets and liabilities

The following is an analysis of the Jiangsu Group's assets and liabilities by reportable segment:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Segment assets				
Continuing operation				
– Serpentine	39,133	38,122	42,811	44,082
Discontinued operations				
– Sulphuric acid	196	–	–	–
– Compound fertilizer	1,568	–	–	–
	1,764	–	–	–
Unallocated assets	14,193	5,778	6,583	11,590
Consolidated assets	55,090	43,900	49,394	55,672

For the purposes of monitoring segment performance and allocating resources between segments all assets are allocated to reportable segments other than amount due from a jointly controlled entity, pledged bank deposits and cash and cash equivalents.

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Segment assets				
Continuing operation				
– Serpentine	18,587	45,471	62,381	86,885
Discontinued operations				
– Sulphuric acid	8,993	254	223	223
– Compound fertilizer	10,208	908	636	595
	19,201	1,162	859	818
Unallocated assets	29,396	25,556	24,163	3,480
Consolidated assets	67,184	72,189	87,403	91,183

For the purpose of monitoring segment performances and allocating resources between segments, all liabilities are allocated to reportable segments other than bank borrowings, other borrowings, accruals for corporate administrative expenses and tax payable.

The segment assets and segment liabilities for discontinued operations were settled subsequent to 31 December 2007.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Information about major customers

Revenues from customers of the corresponding year/period contributing over 10% of the total sales of the Jiangsu Group are as follows:

	Year ended 31 December			Three months ended 31 March	
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2009 RMB'000 (Unaudited)	2010 RMB'000
Customer A	–	–	–	–	3,547
Customer B	–	*	*	–	1,711
Customer C	*	*	*	*	1,403
Customer D	14,070	9,678	*	3,056	–
Customer E	–	–	*	2,243	–
Customer F	*	*	*	1,185	*
Customer G	11,870	12,819	12,619	1,098	*
Customer H	–	–	11,270	–	–
Customer I	*	*	5,647	*	*
Customer J	5,915	9,079	*	–	*
	<u>5,915</u>	<u>9,079</u>	<u>*</u>	<u>–</u>	<u>*</u>

All revenues generated from the major customers relate to the sale of serpentine.

* The revenues from those customers of the corresponding year/period are less than 10% of the total sales of the Jiangsu Group.

8. REVENUE AND OTHER INCOME AND GAINS

Revenue

Revenue represents the amounts received or receivable for sales of serpentine during each of the reporting periods and the three months ended 31 March 2009.

Other income and gains

	Year ended 31 December			Three months ended 31 March	
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2009 RMB'000 (Unaudited)	2010 RMB'000
Continuing operation					
Interest income	55	137	23	8	11
Sales of scrap materials	–	457	–	–	–
Gain on deregistration of a subsidiary (Note 12)	–	–	18	–	–
Government grants (Note)	–	2,370	20	–	–
Gain on disposal of property, plant and equipment	116	–	13	–	–
Gain on disposal of a jointly controlled entity	–	503	–	–	–
Sundry income	337	360	153	31	34
	<u>337</u>	<u>360</u>	<u>153</u>	<u>31</u>	<u>34</u>
Total	<u>508</u>	<u>3,827</u>	<u>227</u>	<u>39</u>	<u>45</u>

Note: The Jiangsu Group received unconditional grants from local government during the Relevant Periods as an encouragement of its development and such government grants were determined at the sole discretion of the relevant PRC government authorities and were recognised in other income and gains.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

9. FINANCE COSTS

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Continuing operation					
Interest on bank borrowings	56	51	104	13	595
Interest on other borrowings	30	1,848	2,223	1,310	468
Imputed interest expenses	–	776	392	105	54
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>86</u>	<u>2,675</u>	<u>2,719</u>	<u>1,428</u>	<u>1,117</u>

10. (LOSS) PROFIT BEFORE TAX

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
(Loss) profit before tax from continuing operation has been arrived at after charging:					
Salaries and allowances	3,660	3,053	3,013	412	665
Contributions to retirement benefits scheme	<u>133</u>	<u>332</u>	<u>262</u>	<u>69</u>	<u>78</u>
Total staff costs (including directors' remuneration)	3,793	3,385	3,275	481	743
Auditor's remuneration	–	145	209	–	–
Cost of inventories recognised as an expense	10,606	8,543	8,179	1,083	1,942
Loss on disposal of property, plant and equipment	–	442	–	–	–
Lease payments under operating lease for rented premises and property, plant and equipment	120	129	216	54	54
Depreciation for property, plant and equipment	1,463	1,435	1,280	289	381
Amortisation for prepaid lease payments	169	338	338	84	84
Amortisation for mining right	115	385	385	96	96
Provision for over-extraction penalty (included in administrative expenses) (Note)	<u>7,994</u>	<u>21,323</u>	<u>17,874</u>	<u>–</u>	<u>–</u>

Note: During the years ended 31 December 2007, 2008 and 2009, the actual mining production volume of the Jiangsu Group exceeded the maximum mining production capacity as stipulated in its mining license. Hence, provision for over-extraction penalty was provided in accordance with the relevant rules and regulations of the PRC.

11. INCOME TAX EXPENSES

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Continuing operation					
Current tax:					
– PRC Enterprise Income Tax (“PRC EIT”)	3,079	1,929	3,009	313	1,400
Under (over) provision in prior years/periods (Note)	–	(1,500)	–	–	–
	<u>3,079</u>	<u>429</u>	<u>3,009</u>	<u>313</u>	<u>1,400</u>

Note: Overprovision of PRC EIT for the year ended 31 December 2008 represented tax benefits available to the Jiangsu Group in respect of the special tax concession for the financial crisis in 2007 but granted in 2008.

The Jiangsu Group is subject to the PRC EIT which has been provided based on the statutory income tax rate of 33% for the year ended 31 December 2007.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the PRC EIT rate of Jiangsu Group was reduced from 33% to 25% from 1 January 2008 onwards. Accordingly, the PRC EIT for the years ended 31 December 2008 and 2009 and for the three months ended 31 March 2009 and 2010 have been calculated using the new PRC EIT rate of 25%.

The income tax for the Relevant Periods and the three months ended 31 March 2009 can be reconciled to the (loss) profit before tax per the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
(Loss) profit before tax (from continuing operation)	<u>(35,847)</u>	<u>(15,829)</u>	<u>(6,814)</u>	<u>511</u>	<u>3,894</u>
Tax at the applicable tax rate of 33% for 2007, 25% for 2008, 2009 and 2010	(11,830)	(3,957)	(1,704)	128	974
Tax effect of expenses not deductible for tax purpose	14,944	6,012	4,725	185	426
Tax effect of income not taxable for tax purpose	(35)	(126)	(12)	–	–
Under (over) provision in prior years	<u>–</u>	<u>(1,500)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Tax charge for the year/period (relating to continuing operation)	<u>3,079</u>	<u>429</u>	<u>3,009</u>	<u>313</u>	<u>1,400</u>

12. DEREGISTRATION OF A SUBSIDIARY

On 30 June 2009, the Jiangsu Group deregistered one of its wholly owned subsidiaries, 連雲港龍泉貿易有限公司.

Net liabilities at the date of deregistration:

	30 June 2009 <i>RMB'000</i>
Other payables and accruals	(18)
Gain on deregistration	18
	<u> </u>
	—

The deregistrated subsidiary had no significant impact on the turnover, results and cash flows to the Jiangsu Group during the Relevant Periods.

13. DISCONTINUED OPERATIONS

On 21 June 2007, Jiangsu Longteng disposed of its property, plant and equipment which carried out all of the Jiangsu Group's manufacturing and sales of sulphuric acid and compound fertilizers operation (the "Disposal"). The directors of Jiangsu Longteng established the strategic objective of the Jiangsu Group to discontinue the sulphuric acid and compound fertilizers operations and shift to focus the resources in serpentine business. The Disposal was completed on 3 July 2007.

The profit for the period from the discontinued operation is analysed as follows:

	Period from 1 January 2007 to 21 June 2007 <i>RMB'000</i>
Loss of manufacturing and sale of sulphuric acid operation for the period	(6,368)
Loss of manufacturing and sale of compound fertilizers operation for the period	(6,195)
	<u> </u>
	(12,563)
Gain on disposal of property, plant and equipment	19,239
	<u> </u>
Profit from discontinued operations for the period	<u>6,676</u>

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The results of the discontinued operations for the period from 1 January 2007 to 21 June 2007, which have been included in the consolidated statement of comprehensive income were as follows:

	Sulphuric acid <i>RMB'000</i>	Compound fertilizers <i>RMB'000</i>	Disposal of property, plant and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue	23,272	133,561	–	156,833
Cost of sales	(21,025)	(125,356)	–	(146,381)
Other income and gains	213	1,220	–	1,433
Gain on disposal of property, plant and equipment	–	–	19,239	19,239
Selling and distribution expenses	(3,131)	(3,916)	–	(7,047)
Administrative expenses	(2,712)	(9,357)	–	(12,069)
Finance costs	(198)	(1,130)	–	(1,328)
(Loss) profit before tax	(3,581)	(4,978)	19,239	10,680
Income tax expenses	(2,787)	(1,217)	–	(4,004)
(Loss) profit for the period	<u>(6,368)</u>	<u>(6,195)</u>	<u>19,239</u>	<u>6,676</u>

(Loss) profit for the period from discontinued operating includes the following:

	Sulphuric acid <i>RMB'000</i>	Compound fertilizers <i>RMB'000</i>	Total <i>RMB'000</i>
Salaries and allowances	2,130	7,348	9,478
Contributions to retirement benefits scheme	120	416	536
Total staff costs (including directors' remuneration)	2,250	7,764	10,014
Cost of inventories recognised as an expense	32,893	113,488	146,381
Depreciation for property, plant and equipment	83	287	370

During the year ended 31 December 2007, the discontinued operations contributed RMB18,263,000 to the Jiangsu Group's net operating cash flows.

The carrying values of the property, plant and equipment at the date of disposal amounted to approximately RMB8,746,000.

14. DIRECTORS' EMOLUMENTS

The details of directors' remuneration for each for the directors during the Relevant Periods and the three months ended 31 March 2009 are set out below:

For the year ended 31 December 2007:

Name of directors	Salaries and other benefits <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Ma Qiang	33	656	3	692
Chen Yu Lai (<i>Note 1</i>)	23	177	3	203
Chen Cong (<i>Note 2</i>)	–	–	–	–
Wang Xin Jun (<i>Note 3</i>)	–	–	–	–
Total	56	833	6	895

For the year ended 31 December 2008:

Name of directors	Salaries and other benefits <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Ma Qiang	42	–	3	45
Chen Yu Lai (<i>Note 1</i>)	3	–	3	6
Chen Cong (<i>Note 2</i>)	–	–	–	–
Wang Xin Jun (<i>Note 3</i>)	–	–	–	–
Yang Min (<i>Note 4</i>)	–	–	–	–
Total	45	–	6	51

For the year ended 31 December 2009:

Name of directors	Salaries and other benefits <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Ma Qiang	9	–	1	10
Chen Cong (<i>Note 2</i>)	–	–	–	–
Yang Min (<i>Note 4</i>)	–	–	–	–
Xu Zhi Yun (<i>Note 5</i>)	72	–	–	72
Total	81	–	1	82

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For the three months ended 31 March 2009 (Unaudited):

Name of directors	Salaries and other benefits <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Ma Qiang	9	–	1	10
Chen Cong (<i>Note 2</i>)	–	–	–	–
Yang Min (<i>Note 4</i>)	–	–	–	–
Xu Zhi Yun (<i>Note 5</i>)	18	–	–	18
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u> 27 </u>	<u> – </u>	<u> 1 </u>	<u> 28 </u>

For the three months ended 31 March 2010:

Name of directors	Salaries and other benefits <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Ma Qiang	–	–	–	–
Chen Cong (<i>Note 2</i>)	–	–	–	–
Xu Zhi Yun (<i>Note 5</i>)	18	–	–	18
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u> 18 </u>	<u> – </u>	<u> – </u>	<u> 18 </u>

Notes:

- (1) Resigned on 30 December 2008.
- (2) Appointed on 13 July 2007.
- (3) Resigned on 1 September 2008.
- (4) Appointed on 1 September 2008 and resigned on 27 March 2009.
- (5) Appointed on 27 March 2009.

No directors waived or agreed to waive any emolument paid by the Jiangsu Group during the Relevant Periods and the three months ended 31 March 2009. No emoluments were paid by the Jiangsu Group to any directors as an incentive payment for joining the Jiangsu Group or as compensation for loss of office during the Relevant Periods and the three months ended 31 March 2009.

The discretionary bonus to directors is determined with reference to the financial performance of the Jiangsu Group.

15. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Jiangsu Group include one director for the year ended 31 December 2007, two directors for the year ended 31 December 2008, nil director for the year ended 31 December 2009, nil director for the three months ended 31 March 2009 and 31 March 2010. Details of whose emoluments are set out in note 14 above. The emoluments of the remaining individuals were as follows:

	Year ended 31 December			Three months ended	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries and other benefits	92	126	130	32	32
Contributions to retirement benefit scheme	12	13	–	–	–
	<u>104</u>	<u>139</u>	<u>130</u>	<u>32</u>	<u>32</u>

Note: The emolument of the above highest paid individual is below RMB500,000.

During the Relevant Periods and three months ended 31 March 2009, no emolument was paid by the Jiangsu Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Jiangsu Group or as compensation for loss of office.

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16. PROPERTY, PLANT AND EQUIPMENT

The Jiangsu Group

	Buildings RMB'000	Plant and machineries RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<i>Cost:</i>						
As at 1 January 2007	5,785	40,489	10	2,078	–	48,362
Additions	–	2,685	36	136	1,291	4,148
Disposals	(4,859)	(29,331)	(10)	(731)	–	(34,931)
As at 31 December 2007 and 1 January 2008	926	13,843	36	1,483	1,291	17,579
Additions	–	1,469	–	618	151	2,238
Transfer from construction in progress	–	1,442	–	–	(1,442)	–
Disposals	(114)	(1,674)	–	(1,303)	–	(3,091)
As at 31 December 2008 and 1 January 2009	812	15,080	36	798	–	16,726
Additions	16	1,538	53	166	775	2,548
Transfer from construction in progress	775	–	–	–	(775)	–
Disposals	–	(89)	–	–	–	(89)
As at 31 December 2009, 1 January 2010 and 31 March 2010	1,603	16,529	89	964	–	19,185
<i>Accumulated depreciation:</i>						
As at 1 January 2007	3,288	33,531	10	408	–	37,237
Charge for the year	167	1,030	1	265	–	1,463
Elimination on disposals	(3,246)	(22,761)	(10)	(163)	–	(26,180)
As at 31 December 2007 and 1 January 2008	209	11,800	1	510	–	12,520
Charge for the year	146	1,143	7	139	–	1,435
Elimination on disposals	(26)	(1,674)	–	(459)	–	(2,159)
As at 31 December 2008 and 1 January 2009	329	11,269	8	190	–	11,796
Charge for the year	217	847	12	204	–	1,280
Elimination on disposals	–	(65)	–	–	–	(65)
As at 31 December 2009 and 1 January 2010	546	12,051	20	394	–	13,011
Charge for the period	72	238	6	65	–	381
As at 31 March 2010	618	12,289	26	459	–	13,392
<i>Net carrying values:</i>						
As at 31 December 2007	717	2,043	35	973	1,291	5,059
As at 31 December 2008	483	3,811	28	608	–	4,930
As at 31 December 2009	1,057	4,478	69	570	–	6,174
As at 31 March 2010	985	4,240	63	505	–	5,793

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Jiangsu Longteng

	Buildings <i>RMB'000</i>	Plant and machineries <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Cost:</i>						
As at 1 January 2007	4,859	40,396	10	1,750	–	47,015
Additions	–	2,685	36	136	1,291	4,148
Disposals	(4,859)	(29,331)	(10)	(731)	–	(34,931)
As at 31 December 2007 and 1 January 2008	–	13,750	36	1,155	1,291	16,232
Additions	–	1,468	–	848	151	2,467
Transfer from construction in progress	–	1,442	–	(230)	(1,442)	(230)
Disposals	–	(1,674)	–	(1,303)	–	(2,977)
As at 31 December 2008 and 1 January 2009	–	14,986	36	470	–	15,492
Additions	–	1,538	53	165	–	1,756
Disposals	–	(45)	–	–	–	(45)
As at 31 December 2009, 1 January 2010 and 31 March 2010	–	16,479	89	635	–	17,203
<i>Accumulated depreciation:</i>						
As at 1 January 2007	3,246	33,528	10	395	–	37,179
Charge for the year	–	1,013	1	206	–	1,220
Elimination on disposals	(3,246)	(22,761)	(10)	(163)	–	(26,180)
As at 31 December 2007 and 1 January 2008	–	11,780	1	438	–	12,219
Charge for the year	–	1,126	7	79	–	1,212
Elimination on disposals	–	(1,674)	–	(459)	–	(2,133)
As at 31 December 2008 and 1 January 2009	–	11,232	8	58	–	11,298
Charge for the year	–	829	12	154	–	995
Elimination on disposals	–	(45)	–	–	–	(45)
As at 31 December 2009 and 1 January 2010	–	12,016	20	212	–	12,248
Charge for the period	–	235	6	51	–	292
As at 31 March 2010	–	12,251	26	263	–	12,540
<i>Net carrying values:</i>						
As at 31 December 2007	–	1,970	35	717	1,291	4,013
As at 31 December 2008	–	3,754	28	412	–	4,194
As at 31 December 2009	–	4,463	69	423	–	4,955
As at 31 March 2010	–	4,228	63	372	–	4,663

The above property, plant and equipment are depreciated over their estimated useful lives on a straight-line basis, taking into account their estimated residual values, as follows:

Buildings	10%
Plant and machineries	5% - 10%
Office equipment	20%
Motor vehicles	20%

All buildings of the Jiangsu Group were located in the PRC. During the Relevant Periods, the building ownership certificates of all buildings have not been granted by the relevant government authorities. In the opinion of the directors of Jiangsu Longteng, the absence of buildings ownership certificates to these buildings does not impair the value of the buildings to the Jiangsu Group.

The Jiangsu Group and Jiangsu Longteng have pledged certain of its buildings and plant and machineries in net book values of approximately RMB3,962,000 and RMB3,785,000 to secure the bank borrowings as at 31 December 2009 and 31 March 2010 respectively.

17. PREPAID LEASE PAYMENTS

The Jiangsu Group and Jiangsu Longteng

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Current assets	338	338	338	338
Non-current assets	16,385	16,047	15,709	15,625
	<u>16,723</u>	<u>16,385</u>	<u>16,047</u>	<u>15,963</u>

Prepaid lease payments represent use rights for the land located in the PRC for the period from June 2007 to June 2057 which are classified as medium term leases.

The Jiangsu Group and Jiangsu Longteng have pledged the prepaid lease payments in net book values of approximately RMB16,047,000 and RMB15,963,000 to secure the bank borrowings as at 31 December 2009 and 31 March 2010 respectively.

18. MINING RIGHT

The Jiangsu Group and Jiangsu Longteng

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
<i>Cost:</i>				
At 1 January	–	3,849	3,849	3,849
Additions	3,849	–	–	–
At 31 December / 31 March	3,849	3,849	3,849	3,849
<i>Accumulated amortisation:</i>				
At 1 January	–	115	500	885
Charge of the year / period	115	385	385	96
At 31 December / 31 March	115	500	885	981
<i>Net carrying values:</i>				
At 31 December / 31 March	3,734	3,349	2,964	2,868

It represents mining right that amortised over its operating period on a straight line basis for 10 years from September 2007 to September 2017.

On 13 September 2007, Jiangsu Longteng entered into an agreement with 江蘇省土地資源廳 to acquire a mining right of 東海蛇紋石礦 which located in Donghai County of Jiangsu Province, the PRC, at consideration of approximately RMB4,555,000. Amounts of approximately RMB955,000, RMB720,000 and RMB720,000 were paid during the years ended 31 December 2007, 2008 and 2009 respectively. The remaining balances would be paid upon maturity and it was included in other payables and long-term payables in note 29.

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

Details of the Jiangsu Group's and Jiangsu Longteng's interest in a jointly controlled entity are as follows:

Name	Place and date of establishment/operation	Equity interest attributable to the Jiangsu Group as at				Paid in capital/registered capital	Principal activities
		2007	2008	2009	31 March 2010		
昊美化工	The PRC 15 June 2005	30%	–	–	–	US\$940,000/ US\$2,100,000	Manufacturing and sales of sulphuric acid

Note: As at 31 December 2007, the Jiangsu Group contributed approximately 22.7% of the paid-in capital of 昊美化工.

昊美化工 was established on 15 June 2005 with 30% interest held by 香港億升國際集團有限公司, 40% interest held by 江蘇君臣實業 and 30% interest held by the Jiangsu Group as at 31 December 2007. 昊美化工 had not yet commenced business since establishment, and therefore no share of

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profits and losses was recognised during the year ended 31 December 2007. On 15 August 2008, the Jiangsu Group disposed of all its 30% interests in 昊美化工 for consideration of approximately RMB2,103,000 to 江蘇君臣實業 resulting a gain on disposal of a jointly controlled entity of approximately RMB503,000 for the year ended 31 December 2008.

The summarised financial information in respect of the Jiangsu Group's and Jiangsu Longteng's interest in the jointly controlled entity which are accounted for using the equity method as at 31 December 2007 is set out below:

	As at 31 December 2007 RMB'000
Current assets	710
Non-current assets	10,799
Current liabilities	4,458

20. INVENTORIES

The Jiangsu Group and Jiangsu Longteng

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and consumables	1,297	680	483	505
Finished goods	1,333	3,149	2,060	2,551
	<u>2,630</u>	<u>3,829</u>	<u>2,543</u>	<u>3,056</u>

21. TRADE AND BILLS RECEIVABLES

The Jiangsu Group and Jiangsu Longteng

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	5,963	5,494	12,363	10,028
Bills receivable	1,487	2,450	1,405	5,280
	<u>7,450</u>	<u>7,944</u>	<u>13,768</u>	<u>15,308</u>

The Jiangsu Group and Jiangsu Longteng allow a credit period normally ranging from 90 to 180 days to their trade customers during the Relevant Periods. An aging analysis of the Jiangsu Group's and Jiangsu Longteng's trade and bills receivables presented based on the invoice date at the end of each reporting period is as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Within 30 days	3,704	2,665	7,965	8,991
31 to 60 days	2,191	2,407	4,689	3,709
61 to 90 days	1,006	1,670	641	1,506
Over 90 days	549	1,202	473	1,102
	<u>7,450</u>	<u>7,944</u>	<u>13,768</u>	<u>15,308</u>

At the end of each reporting period, the aging analysis of trade and bills receivables that are past due but not impaired is as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Neither past due nor impaired	7,107	7,193	13,553	14,806
Within 30 days	110	426	157	—
31 to 60 days	221	325	58	389
61 to 90 days	—	—	—	—
Over 90 days	12	—	—	113
	<u>7,450</u>	<u>7,944</u>	<u>13,768</u>	<u>15,308</u>

Trade and bills receivables that were neither past due nor impaired related to a wide range of customers for whom there were no recent history of default. Trade and bills receivables that were past due but not impaired related to a number of customers that have a historical payment record with the Jiangsu Group. Based on past experience, the management of the Jiangsu Group and Jiangsu Longteng believe 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 Jiangsu Group and Jiangsu Longteng do not hold any collateral over these balances.

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22. AMOUNTS DUE FROM (TO) A JOINTLY CONTROLLED ENTITY / A MINORITY SHAREHOLDER AND A FORMER SHAREHOLDER / SUBSIDIARIES

The Jiangsu Group and Jiangsu Longteng

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
Amount due from a jointly controlled entity				
– 昊美化工	4,173	–	–	–
Amount due from a minority shareholder				
– Ma Qiang				
At beginning of the year/period	12,221	12,221	12,221	12,221
Less: allowance for doubtful debts	(12,221)	(12,221)	(12,221)	(12,221)
At end of the year/period	–	–	–	–
Amount due from a former shareholder				
– 江蘇君臣實業				
At the beginning of the year/period	24,406	24,406	24,406	24,406
Less: allowance for doubtful debts	(24,406)	(24,406)	(24,406)	(24,406)
At end of the year/period	–	–	–	–

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
The maximum amount outstanding during the Relevant Periods:				
Amount due from a jointly controlled entity				
– 昊美化工	4,173	–	–	–
Amount due from a minority shareholder				
– Ma Qiang	12,221	12,221	12,221	12,221
Amount due from a former shareholder				
– 江蘇君臣實業	24,406	24,406	24,406	24,406

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

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The movement in the allowance for doubtful debt of amount due from a minority shareholder is as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
At beginning of the year / period	300	12,221	12,221	12,221
Impairment loss recognised for the year / period	11,921	—	—	—
At end of the year / period	<u>12,221</u>	<u>12,221</u>	<u>12,221</u>	<u>12,221</u>

Included in the impairment of amount due from a minority shareholder at the end of each reporting period was individually impaired amount with an aggregate balance of approximately RMB12,221,000 which has been long outstanding and its recoverability was in doubt. The Jiangsu Group and Jiangsu Longteng do not hold any collateral over this balance.

The movement in the allowance for doubtful debt of amount due from a former shareholder is as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
At beginning of the year / period	—	24,406	24,406	24,406
Impairment loss recognised for the year / period	24,406	—	—	—
At end of the year / period	<u>24,406</u>	<u>24,406</u>	<u>24,406</u>	<u>24,406</u>

Included in the impairment of amount due from a former shareholder at the end of each reporting period was individually impaired amount with an aggregate balance of approximately RMB24,406,000 which has been long outstanding and its recoverability was in doubt. The Jiangsu Group and Jiangsu Longteng do not hold any collateral over this balance.

Jiangsu Longteng

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

23. PLEDGED BANK DEPOSITS

The Jiangsu Group and Jiangsu Longteng

As at 31 December 2007, bank deposits of approximately RMB8,140,000 carrying interest rate of 3.15% per annum were pledged to secure the bills payable issued by the Jiangsu Group and Jiangsu Longteng. All bills payable have been settled on or before 29 March 2008 and the pledged bank deposits were released accordingly.

24. CASH AND CASH EQUIVALENTS

The Jiangsu Group and Jiangsu Longteng

Bank balances carry interest at prevailing market rates ranged from 0.36% to 0.72% during the Relevant Periods.

All the cash and cash equivalents are denominated in RMB whereas remittance out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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25. TRADE AND BILLS PAYABLES

The Jiangsu Group and Jiangsu Longteng

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	5,336	1,152	1,392	1,025
Bills payable	8,140	—	—	—
	<u>13,476</u>	<u>1,152</u>	<u>1,392</u>	<u>1,025</u>

At the end of each reporting period, the aging analysis of trade and bills payables of the Jiangsu Group and Jiangsu Longteng based on the invoice date is as follows:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	3,007	119	607	120
31 – 60 days	201	27	33	72
61 – 90 days	7,154	19	14	—
Over 90 days	3,114	987	738	833
	<u>13,476</u>	<u>1,152</u>	<u>1,392</u>	<u>1,025</u>

26. PROVISION FOR OVER-EXTRACTION PENALTY

The Jiangsu Group and Jiangsu Longteng

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	—	7,994	29,317	47,191
Additional provision in the year/ period	7,994	21,323	17,874	—
	<u>7,994</u>	<u>29,317</u>	<u>47,191</u>	<u>47,191</u>

The provision represents over-extraction penalty in relation to the actual mining production volume of the Jiangsu Group and Jiangsu Longteng exceeded the maximum mining production capacity as stipulated in its mining license.

27. BANK BORROWINGS

The Jiangsu Group and Jiangsu Longteng

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Fixed rate bank borrowings repayable within one year				
– Secured	–	–	9,939	20,000
– Unsecured	4,000	–	–	–
	<u>4,000</u>	<u>–</u>	<u>9,939</u>	<u>20,000</u>

As at 31 December 2007, the bank borrowings were secured by land and buildings owned by an independent third party, 連雲港港澳城飲食娛樂有限公司.

As at 31 December 2009 and 31 March 2010, the bank borrowings were secured by the assets of the Jiangsu Group and Jiangsu Longteng as shown in note 33.

The effective interest rates per annum at the end of each reporting period are as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
				2010
Bank borrowings	6.44%-7.96%	–	5.31%	5.31%

28. OTHER BORROWINGS

The Jiangsu Group and Jiangsu Longteng

At the end of each reporting period, the other borrowings were repayable as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Other borrowings (unsecured):				
– On demand or within one year	6,464	20,224	11,826	7,475
– More than one year but not exceeding two years	2,456	4,020	–	–
	<u>8,920</u>	<u>24,244</u>	<u>11,826</u>	<u>7,475</u>
Total other borrowings	8,920	24,244	11,826	7,475
Less: Amount due within one year shown under current liabilities	(6,464)	(20,224)	(11,826)	(7,475)
	<u>2,456</u>	<u>4,020</u>	<u>–</u>	<u>–</u>
Amount due after one year	2,456	4,020	–	–

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Loans from staff	8,920	8,992	6,159	6,729
Others	–	15,252	5,667	746
Total	<u>8,920</u>	<u>24,244</u>	<u>11,826</u>	<u>7,475</u>

The effective interest rates per annum at the end of each reporting period ranged from:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
Other borrowings	8.00%-15.00%	8.00%-10.20%	8.00%-10.20%	4.00%-10.00%

As at 31 December 2008 and 2009, other borrowings of approximately RMB15,000,000 and RMB5,000,000 respectively, were guaranteed by the director of the Company, Mr Chi Wen Fu, and the minority shareholder, Mr Ma Qiang.

29. LONG-TERM PAYABLES

The Jiangsu Group and Jiangsu Longteng

Long-term payables were the remaining consideration for the acquisition of mining rights as disclosed in note 18. The payables would be settled by cash of approximately RMB720,000 in each year from 2008 to 2012.

	As at 31 December			As at 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred considerations:				
– On demand or within one year	669	669	669	669
– More than one year but not exceeding two years	620	620	620	620
– More than two years but not more than five years	<u>1,606</u>	<u>1,110</u>	<u>576</u>	<u>612</u>
Total deferred considerations	2,895	2,399	1,865	1,901
Less: Amount due within one year shown under current liabilities (included in other payables)	<u>(669)</u>	<u>(669)</u>	<u>(669)</u>	<u>(669)</u>
Long-term payables	<u>2,226</u>	<u>1,730</u>	<u>1,196</u>	<u>1,232</u>

The long-term payables were denominated in RMB and the effective interest rates during the Relevant Periods were 7.74% per annum.

30. PAID IN CAPITAL

The Jiangsu Group and Jiangsu Longteng

The registered capital as at 1 January 2007, 31 December 2007, 2008, 2009 and 31 March 2010 represents the paid in capital of Jiangsu Longteng.

31. RESERVES

The Jiangsu Group

The amounts of the Jiangsu Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity.

Jiangsu Longteng

	Paid in capital RMB'000	PRC statutory reserve RMB'000 (Note 1)	Safety fund RMB'000 (Note 2)	Retained profits / (accum- ulated losses) RMB'000	Total equity RMB'000
As at 1 January 2007	14,160	1,362	–	4,484	20,006
Loss and total comprehensive expenses for the year	–	–	–	(33,376)	(33,376)
Transfer	–	2,158	–	(2,158)	–
As at 31 December 2007 and 1 January 2008	14,160	3,520	–	(31,050)	(13,370)
Loss and total comprehensive expenses for the year	–	–	–	(17,150)	(17,150)
Appropriation of safety fund	–	–	430	–	430
Utilisation of safety fund	–	–	(7)	–	(7)
Transfer	–	631	–	(631)	–
As at 31 December 2008 and 1 January 2009	14,160	4,151	423	(48,831)	(30,097)
Loss and total comprehensive expenses for the year	–	–	–	(10,008)	(10,008)
Appropriation of safety fund	–	–	435	–	435
Utilisation of safety fund	–	–	(33)	–	(33)
Transfer	–	776	–	(776)	–
As at 31 December 2009 and 1 January 2010	14,160	4,927	825	(59,615)	(39,703)
Profit and total comprehensive income for the period	–	–	–	2,477	2,477
Appropriation of safety fund	–	–	136	–	136
Utilisation of safety fund	–	–	(18)	–	(18)
As at 31 March 2010	14,160	4,927	943	(57,138)	(37,108)

Notes:

- (1) The PRC statutory reserve is non-distributable and the transfer to this reserve is determined by the board of directors in accordance with the relevant laws and regulations of the PRC. This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.
- (2) Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund. The fund can be used for improvements of safety at the mines and construction sites and is not available for distribution to owner.

32. OPEARTING LEASE COMMITMENTS

The Jiangsu Group lease various lands and property, plant and equipment under non-cancellable lease arrangements. The leases have varying terms, escalation clauses and renewal rights. Leases are negotiated for terms ranging from 5 to 20 years.

At the end of each reporting period, the Jiangsu Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Within one year	148	28	244	244
In the second to fifth years, inclusive	110	110	758	704
Over five years	343	315	287	280
	<u>601</u>	<u>453</u>	<u>1,289</u>	<u>1,228</u>

33. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bills payable (Note 25) and bank borrowings (Note 27) of the Jiangsu Group and Jiangsu Longteng:

	As at 31 December			As at
	2007	2008	2009	31 March
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Property, plant and equipment (Note 16)	–	–	3,962	3,785
Prepaid lease payments (Note 17)	–	–	16,047	15,963
Pledged bank deposits (Note 23)	8,140	–	–	–
	<u>8,140</u>	<u>–</u>	<u>20,009</u>	<u>19,748</u>

34. RETIREMENT BENEFIT SCHEMES

As stipulated by the rules and regulations in the PRC, the Jiangsu Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Jiangsu Group contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The only obligation of the Jiangsu Group with respect to the retirement benefit plan is to make the specified contributions. The total retirement benefit scheme contributions charged to the consolidated statements of comprehensive income amounted to approximately RMB669,000, RMB303,000, RMB165,000, RMB48,000 and RMB38,000 respectively for the years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2009 and 2010.

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35. INVESTMENTS IN SUBSIDIARIES

	Year ended 31 December			Three months ended 31 March
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 1)	(Note 2)	
Investments, at cost:				
Unlisted share capital	3,770	3,900	1,300	1,300

Notes:

- (1) On 20 February 2008, Jiangsu Longteng acquired the remaining 10% equity interest in 龍游物流 from 龍泉貿易 at a consideration of RMB130,000, resulting an increase in direct equity interest in 龍游物流 from 90% to 100%.
- (2) 龍泉貿易 was deregistered on 30 June 2009. Details of which are set out in Note 12.

The following is a list of the principal subsidiaries of Jiangsu Longteng as at 31 December 2007, 2008, 2009 and 31 March 2010:

Name	Place of incorporation	Class of shares held	Paid up / registered capital	Equity interest attributable to the Jiangsu Group				Principal activities
				31 December 2007	31 December 2008	31 March 2009	31 March 2010	
連雲港龍泉貿易有限公司	The PRC	Contributed capital	RMB 2,600,000	100%	100%	–	–	Trading of compound fertilizers and sulphuric acid
連雲港龍游物流有限公司	The PRC	Contributed capital	RMB 1,300,000	100%	100%	100%	100%	Provision for internal logistic services

36. RELATED PARTIES TRANSACTION

Except as disclosed elsewhere in the Financial Information, the Jiangsu Group entered into the following significant related party transactions during the Relevant Periods and the three months ended 31 March 2009.

- (a) Compensation to directors and key management personnel of the Jiangsu Group:

	Year ended 31 December			Three months ended 31 March	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Short-term benefits	889	45	81	27	18
Post-employment benefits	6	6	1	1	–
	895	51	82	28	18

The remuneration of directors and key executives is determined with regard to the performance of individual and market trends.

37. CONTINGENT LIABILITIES**Environmental contingencies**

The Jiangsu Group's operations are regulated by various laws and regulations. Laws and regulations protecting the environment and wild life have generally become more stringent in recent years and could become more stringent in the future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Jiangsu Group for violations for existing conditions attached to the licence whether or not caused or known by the Jiangsu Group. The financial position of the Jiangsu Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors of the Jiangsu Longteng are not aware of any environmental liabilities as at 31 March 2010. The directors of the Jiangsu Longteng are also not aware of any violation to existing conditions attached to the Jiangsu Group's serpentine mining licence, or subject to any significant costs, expenses, penalties and liabilities.

C. SUBSEQUENT EVENTS

There are no material subsequent events took place as at the date of this report.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Jiangsu Group in respect of any period subsequent to 31 March 2010.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Lo Wa Kei

Practising Certificate Number: P03427

Hong Kong

25 September 2010

2.2 MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE LONGTENG GROUP

Set out in Appendix II to this circular is the accountants' report of the Longteng Group for the three financial years ended 31 December 2009 and for the three months ended 31 March 2010. Below is the management discussion and analysis on the performance of the Longteng Group for each of the aforesaid periods:-

(i) For the year ended 31 December 2007

Results and financial position

The Longteng Group was involved in the sales of serpentine, sulphuric acid and compound fertilizers businesses in the PRC, of which the sulphuric acid and compound fertilizers businesses were discontinued during the year. In respect of the sales of serpentine, the Longteng Group recorded revenue of approximately RMB42.4 million with gross profit of approximately RMB31.8 million, representing gross margin of approximately 75.0%. As a result of (i) an one-off impairment loss recognized in respect of the total outstanding amounts due from a minority shareholder and a former shareholder (the "Loan Provision") of approximately RMB36.3 million; (ii) selling and distribution expenses of approximately RMB19.8 million which was mainly attributable to transportation expenses mainly for the delivery of serpentine to customers; and (iii) administrative expenses of approximately RMB12.0 million which included the provision of a penalty which might be imposed in accordance with the rules and regulations of the PRC due to the volume of serpentine extracted by the Longteng Group during the year exceeded the volume per annum as granted under its mining license (the "Penalty Provision") of approximately RMB8.0 million. The Longteng Group recorded loss for the year of approximately RMB38.9 million. On the other hand, the sulphuric acid and compound fertilizers businesses of the Longteng Group recorded revenue of approximately RMB156.8 million and net profit of approximately RMB6.7 million after taking into account a gain on disposal of property, plant and equipment which carried out the manufacturing and sales of sulphuric acid and compound fertilizers operations ("the Disposal") of approximately RMB19.2 million. Overall, the Longteng Group recorded a loss for the year of approximately RMB32.2 million.

Capital structure and liquidity

As at 31 December 2007, the Longteng Group held cash and cash equivalents of approximately RMB1.9 million, whereas bank borrowings and other borrowings amounted to approximately RMB4.0 million and RMB8.9 million, respectively. Gearing ratio of the Longteng Group, being total borrowings divided by total assets, was approximately 23.5%. The Longteng Group recorded net current liabilities of approximately RMB34.2 million, which was primarily attributable to (i) other payables and accruals of

approximately RMB23.7 million, which mainly comprised agency fees payables to its agent and safety deposit payable by the Longteng Group; (ii) the Penalty Provision of approximately RMB8.0 million; and (iii) trade and bills payables of approximately RMB 13.5 million.

Significant investments, material acquisitions and disposals

Save for (i) the Disposal upon the discontinuation of the manufacturing and sales of sulphuric acid and compound fertilizers operations which resulted in a disposal gain of approximately RMB19.2 million; and (ii) the entering into of an agreement on 13 September 2007 with 江蘇省土地資源廳 to acquire the mining right at a consideration of approximately RMB4.6 million to be paid by instalments over several years, the Longteng Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2007.

Employees and remuneration policy

The Longteng Group had 119 employees as at 31 December 2007. Total staff costs, including directors' remuneration, amounted to approximately RMB3.8 million for the year. On top of basic salaries, the Longteng Group rewarded discretionary bonuses and provided retirement benefit scheme contributions to staffs during the year. The Longteng Group has no bonus or share option schemes.

Charges on assets

As at 31 December 2007, bank deposits of approximately RMB8.1 million carrying interest rate of 3.15% per annum were pledged to secure certain bills payable which had been fully settled on or before 29 March 2008 and the pledged bank deposits were released accordingly.

Foreign exchange risk

During the year, all of the (i) operating revenue and expenses; (ii) cash and cash equivalents; and (iii) borrowings of the Longteng Group were denominated in RMB and therefore the Longteng Group is not exposed to foreign exchange risk save for remittance out of the PRC which is subject to the foreign exchange control restrictions imposed by the government of the PRC.

Contingent liabilities

The Longteng Group had no material contingent liabilities as at 31 December 2007.

Future plans and prospects

Following the completion of the Disposal on 3 July 2007 and the acquisition of the mining right on 13 September 2007, the Longteng Group established its strategic objective to discontinue the sulphuric acid and compound fertilizers operations and focus on the development of the serpentine business.

(ii) For the year ended 31 December 2008

Results and financial position

During the year, the Longteng Group was engaged in the single operating segment of the sales of serpentine in the PRC. In respect of the sales of serpentine, the Longteng Group recorded revenue of approximately RMB40.3 million, representing a slight decrease of approximately 5.0% compared with the previous year, which was mainly attributable to the decreased sales volume despite the increase in average selling price of serpentine and higher volume of serpentine extracted. Gross profit amounted to approximately RMB31.8 million, representing a slightly improvement in gross margin to approximately 78.9% as compared with the previous year. Major expenses for the year included (i) administrative expenses of approximately RMB28.3 million that was primarily attributable to the Penalty Provision of approximately RMB21.3 million, which significantly increased when compared with the previous year given that the Longteng Group extracted a higher volume of serpentine during the year; and (ii) selling and distribution expenses of approximately RMB20.4 million, of which RMB18.3 million was attributable to transportation expenses mainly for the delivery of serpentine to customers. As a result, the Longteng Group recorded a loss for the year of approximately RMB16.3 million.

Capital structure and liquidity

As at 31 December 2008, the Longteng Group held cash and cash equivalents of approximately RMB5.8 million, whereas bank borrowings had been fully repaid and other borrowings increased to approximately RMB24.2 million, which led to the increase in the gearing ratio of the Longteng Group, being total borrowings divided by total assets, to approximately 55.2%. The Longteng Group recorded net current liabilities of approximately RMB46.5 million, which was primarily attributable to (i) the Penalty Provision of approximately RMB29.3 million; and (ii) other borrowings due within one year which increased from approximately RMB6.4 million as at 31 December 2007 to approximately RMB20.2 million as at 31 December 2008.

Significant investments, material acquisitions and disposals

Save for the disposal of all its 30% interests in 昊美化工, which was a jointly controlled entity that had not yet commenced business since establishment, for a consideration of approximately RMB2.1 million on 15 August 2008, the Longteng Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2008.

Employees and remuneration policy

The Longteng Group had 102 employees as at 31 December 2008. Total staff costs, including directors' remuneration, amounted to approximately RMB3.4 million for the year, representing a decrease of approximately 75.4% due to the Disposal which reduced the number of staffs. On top of basic salaries, the Longteng Group provided retirement benefit scheme contributions to staffs during the year. The Longteng Group has no bonus or share option schemes.

Charges on assets

The Longteng Group had no pledged assets as at 31 December 2008.

Foreign exchange risk

During the year, all of the (i) operating revenue and expenses; (ii) cash and cash equivalents; (iii) borrowings of the Longteng Group were denominated in RMB and therefore the Longteng Group is not exposed to foreign exchange risk save for remittance out of the PRC which is subject to the foreign exchange control restrictions imposed by the government of the PRC.

Contingent liabilities

The Longteng Group had no material contingent liabilities as at 31 December 2008.

Future plans and prospects

The Longteng Group will continue to allocate resources and investments for further development of the serpentine business, such as the increase in annual production capacity of the serpentine mine.

(iii) For the year ended 31 December 2009

Results and financial position

During the year, the Longteng Group was engaged in the single operating segment of the sales of serpentine in the PRC. The Longteng Group recorded revenue of approximately RMB50.3 million, representing an increase of approximately 24.8% compared with the previous year, which was mainly attributable to both the increased sales volume and the increase in average selling price of serpentine. Gross profit amounted to approximately RMB42.1 million, representing an improvement in gross margin to approximately 84.0% as compared with the previous year due to the installation of new power generation equipment in late 2008, which reduced electricity costs. Major expenses for the year included (i) administrative expenses of approximately RMB23.4 million that was primarily attributable to the high amount of Penalty Provision of approximately RMB17.9 million; and (ii) selling and distribution expenses of approximately RMB23.0 million, of which RMB21.6 million was attributable mainly to transportation expenses for the delivery of serpentine to customers, which increased by approximately 18.0% compared with the previous year due to the higher sales volume this year. As a result, the Longteng Group recorded a loss for the year of approximately RMB9.8 million.

Capital structure and liquidity

As at 31 December 2009, the Longteng Group held cash and cash equivalents of approximately RMB6.6 million, whereas bank borrowings amounted to approximately RMB10.0 million and other borrowings reduced to approximately RMB11.8 million, which led to the decrease in the gearing ratio of the Longteng Group, being total borrowings divided by total assets, to approximately 44.2%. The Longteng Group recorded net current liabilities of approximately RMB61.1 million, which was primarily attributable to (i) the Penalty Provision of approximately RMB47.2 million; (ii) trade and bills receivables which increased from approximately RMB7.9 million as at 31 December 2008 to approximately RMB13.8 million as at 31 December 2009 primarily due to the improvement in sales performances; and (iii) other borrowings due within one year which decreased from approximately RMB20.2 million as at 31 December 2008 to approximately RMB11.8 million as at 31 December 2009.

Significant investments, material acquisitions and disposals

The Longteng Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2009.

Employees and remuneration policy

The Longteng Group had 103 employees as at 31 December 2009. Total staff costs, including directors' remuneration, amounted to approximately RMB3.3 million for the year. On top of basic salaries, the Longteng Group provided retirement benefit scheme contributions to staffs during the year. The Longteng Group has no bonus or share option schemes.

Charges on assets

The Longteng Group pledged certain of its (i) buildings, plant and machineries; and (ii) prepaid lease payments for the mining site located in the PRC in net book values of approximately RMB4.0 million and RMB16.0 million to secure bank borrowings as at 31 December 2009.

Foreign exchange risk

During the year, all of the (i) operating revenue and expenses; (ii) cash and cash equivalents; (iii) borrowings of the Longteng Group were denominated in RMB and therefore the Longteng Group is not exposed to foreign exchange risk save for remittance out of the PRC which is subject to the foreign exchange control restrictions imposed by the government of the PRC.

Contingent liabilities

The Longteng Group had no material contingent liabilities as at 31 December 2009.

Future plans and prospects

The Longteng Group will continue to allocate resources and investments for further development of the serpentine business, such as the increase in annual production capacity of the serpentine mine to 2.0 Mt per annum in the near future.

(iv) For the three months ended 31 March 2010*Results and financial position*

During the period, the Longteng Group was engaged in the single operating segment of the sales of serpentine in the PRC. The Longteng Group recorded revenue of approximately RMB12.1 million, representing an increase of approximately 34.3% compared with the corresponding period in the previous year, which was mainly attributable to both the increased sales volume and the increase in average selling price of serpentine. Gross profit amounted to approximately RMB10.1 million, representing a gross margin of approximately 83.5%. Major expenses for the period included (i) selling and distribution expenses of approximately RMB4.1 million, of which RMB3.7 million was attributable to transportation expenses mainly for the delivery of serpentine to customers; and (ii) income tax expenses of approximately RMB1.4 million, which was calculated based on the Enterprise Income Tax rate of the PRC effective from 1 January 2008 of 25%. As a result, the Longteng Group recorded a profit for the period of approximately RMB2.5 million.

Capital structure and liquidity

As at 31 March 2010, the Longteng Group held cash and cash equivalents of approximately RMB11.6 million, whereas other borrowings further reduced to approximately RMB7.5 million but bank borrowings further increased to approximately RMB20.0 million, which led to the increase in the gearing ratio of the Longteng Group, being total borrowings divided by total assets, to approximately 49.4%. The Longteng Group recorded net current liabilities of approximately RMB57.8 million, which was primarily attributable to (i) the Penalty Provision of approximately RMB47.2 million; (ii) short term bank borrowings due within one year which increased from approximately RMB10.0 million as at 31 December 2009 to approximately RMB20.0 million as at 31 March 2010 for development of the serpentine mine; and (iii) trade and bills receivables which slightly increased from approximately RMB13.8 million as at 31 December 2009 to approximately RMB15.3 million as at 31 March 2010. Despite the Longteng Group recorded net current liabilities, Mr Zhang Jun, the ultimate beneficial owner of the Longteng Group, will continue to provide financial support to the Longteng Group to meet its liabilities and commitments as and when they fall due.

Significant investments, material acquisitions and disposals

The Longteng Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the three months ended 31 March 2010.

Employees and remuneration policy

The Longteng Group had 103 employees as at 31 March 2010. Total staff costs, including directors' remuneration, amounted to approximately RMB0.7 million for the period. On top of basic salaries, the Longteng Group may also reward discretionary bonuses and provide retirement benefit scheme contributions to staffs. The Longteng Group has no bonus or share option schemes.

Charges on assets

The Longteng Group pledged certain of its (i) buildings, plant and machineries; and (ii) prepaid lease payments for the mining site located in the PRC in net book values of approximately RMB3.8 million and RMB16.0 million to secure bank borrowings as at 31 March 2010.

Foreign exchange risk

During the period, all of the (i) operating revenue and expenses; (ii) cash and cash equivalents; (iii) borrowings of the Longteng Group were denominated in RMB and therefore the Longteng Group is not exposed to foreign exchange risk save for remittance out of the PRC which is subject to the foreign exchange control restrictions imposed by the government of the PRC.

Contingent liabilities

The Longteng Group had no material contingent liabilities as at 31 March 2010.

Future plans and prospects

The Longteng Group will continue to allocate resources and investments for further development of the serpentine business, such as the increase in annual production capacity of the serpentine mine to 2.0 Mt per annum in the near future.

**I. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND
LIABILITIES ON THE ENLARGED GROUP**

The unaudited pro forma consolidated statement of assets and liabilities of Century Sunshine Group Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred as the “Group”) and Gold Strategy Investments Limited (“Gold Strategy”) and its subsidiaries (hereinafter collectively referred as the “Target Group”) (together with the Group hereinafter referred to as the “Enlarged Group”) (the “Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group”) has been prepared to illustrate the effect of the proposed acquisition of the entire equity interests in Gold Strategy (the “Acquisition”) on the financial position of the Group.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group is prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition had been taken place on 30 June 2010.

The preparation of the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group is based on the (1) the condensed consolidated statement of financial position of the Group as at 30 June 2010, which has been extracted from the published interim report of the Group for the period ended 30 June 2010 and (2) the audited consolidated statement of financial position of the Target Group as at 31 March 2010 as set out in the accountants’ report on the Target Group which are included in Appendix II to this circular after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transactions; and (ii) factually supportable. Accordingly, the accompanying Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group is prepared for illustrative purposes only and because of its nature, may not give a true picture of the financial position of the Enlarged Group as at 30 June 2010 or any future date.

Unaudited pro forma consolidated statement of assets and liabilities of the
Enlarged Group

	The Group	The Target	Pro forma adjustments relating to the		Notes	Pro forma consolidated statement of assets and liabilities of the Enlarged Group after the
	30.6.2010	31.3.2010	Sub-total	Acquisition		Acquisition
	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000
	(Note 1)	(Note 2)				
Non-current assets						
Land use rights	46,224	15,625	61,849	–		61,849
Property, plant and equipment	224,917	5,793	230,710	–		230,710
Investment properties	64,378	–	64,378	–		64,378
Intangible assets	490	–	490	–		490
Mining right	–	2,868	2,868	351,232	8	354,100
Exploration and evaluation assets	29,369	–	29,369	–		29,369
Goodwill	–	21,756	21,756	44,265	6(vi)	66,021
Deposit for acquisition of subsidiaries	47,850	–	47,850	(47,850)	6(i)	–
Deposit for acquisition of plant and machinery	628	–	628	–		628
	<u>413,856</u>	<u>46,042</u>	<u>459,898</u>	<u>347,647</u>		<u>807,545</u>
Current assets						
Inventories	41,511	3,056	44,567	–		44,567
Land use rights	1,005	338	1,343	–		1,343
Trade and other receivables	73,404	16,402	89,806	–		89,806
Investments held for trading	13,462	–	13,462	–		13,462
Amounts due from Target Group	–	–	–	13,865	5	–
				(13,865)	10	
Deposit with banks	415,500	–	415,500	–		415,500
Cash and cash equivalents	218,670	11,744	230,414	(201,840)	6(ii)	24,056
	<u>763,552</u>	<u>31,540</u>	<u>795,092</u>	<u>(4,518)</u>	<u>11</u>	<u>588,734</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

						Pro forma consolidated statement of assets and liabilities of the Enlarged Group after the Acquisition
	The Group 30.6.2010 RMB'000 (Note 1)	The Target Group 31.3.2010 RMB'000 (Note 2)	Sub-total RMB'000	Pro forma adjustments relating to the Acquisition RMB'000	Notes	RMB'000
Current liabilities						
Trade and other payables	68,401	12,309	80,710	–		80,710
Provision for over-extraction penalty	–	47,191	47,191	–		47,191
Amount due to a director	–	13,821	13,821	(13,821)	10	–
Amount due to an immediate holding company	–	44	44	(44)	10	–
Bank borrowings	–	20,000	20,000	–		20,000
Other borrowings	–	7,475	7,475	–		7,475
Income tax payable	4,155	2,253	6,408	–		6,408
	<u>72,556</u>	<u>103,093</u>	<u>175,649</u>	<u>(13,865)</u>		<u>161,784</u>
Net current assets (liabilities)	<u>690,996</u>	<u>(71,553)</u>	<u>619,443</u>	<u>(192,493)</u>		<u>2,126,950</u>
Total assets less current liabilities	<u>1,104,852</u>	<u>(25,511)</u>	<u>1,079,341</u>	<u>155,154</u>		<u>1,234,495</u>
Non-current liabilities						
Long term payables	114,189	1,232	115,421	–		115,421
Deferred tax liabilities	3,284	–	3,284	87,808	8	91,092
	<u>117,473</u>	<u>1,232</u>	<u>118,705</u>	<u>87,808</u>		<u>206,513</u>
NET ASSETS (LIABILITIES)	<u>987,379</u>	<u>(26,743)</u>	<u>960,636</u>	<u>67,346</u>		<u>1,027,982</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

						Pro forma consolidated statement of assets and liabilities of the Enlarged Group after the Acquisition
	The Group 30.6.2010 RMB'000 (Note 1)	The Target Group 31.3.2010 RMB'000 (Note 2)	Sub-total RMB'000	Pro forma adjustments relating to the Acquisition RMB'000	Notes	RMB'000
Capital and reserves						
Share capital	47,018	–	47,018	–	6 (iv)	48,758
				1,740	6 (iii)	
Reserves	885,044	(23,615)	861,429	23,490	6 (iii)	904,016
				23,615	6 (v)	
				(4,518)	11	
Equity (capital deficiency) attributable to:						
Owners of the Company	932,062	(23,615)	908,447	44,327		952,774
Non-controlling interests	55,317	(3,128)	52,189	23,019	6(vi)	75,208
SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)	987,379	(26,743)	960,636	67,346		1,027,982

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF
ASSETS AND LIABILITIES OF THE ENLARGED GROUP*Notes:*

1. The balances are extracted from the condensed consolidated statement of financial position of the Group as at 30 June 2010 which has been extracted from published interim report of the Group for the period ended 30 June 2010.
2. The balances are extracted from the accountants' report set out in Appendix II to this Circular.
3. Upon completion of the Acquisition (the "Completion"), the Target Group will be accounted for as subsidiaries of the Group. Under Hong Kong Financial Report Standards 3 (revised in 2008) Business Combinations (HKFRS 3 (2008)) issued by Hong Kong Institute of Certified Public Accountants, the Group will apply the acquisition method to account for the acquisition of the Target Group. In applying the acquisition method, the identifiable assets, liabilities and contingent liabilities of the Target Group as at 31 March 2010 are recorded in the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group at their fair values as if the acquisition was completed on 30 June 2010.

The consideration transferred in the Acquisition is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owner of the Target Group and the equity interests issued by the Group in exchange for control of the Target Group. Where the consideration the Group transfers in the Acquisition includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in the Acquisition.

Any goodwill arising on the Acquisition will be determined as the excess of the sum of the consideration transferred and amount of any non-controlling interests in the Target Group over its interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Target Group.

Since the fair value of the consideration transferred by the Group (including contingent consideration) and the fair values of net identifiable assets, liabilities and contingent liabilities of the Target Group at the date of Completion may be substantially different from the estimated fair values used in the preparation of this Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group, the amount of goodwill on Acquisition at the date of Completion may be different from that estimated amount presented.

4. Pursuant to the sale and purchases agreement (the "Agreement") dated 10 September 2010, Bright Stone Group Limited, a wholly-owned subsidiary of the Company, has conditionally agreed to acquire the entire equity interest in Gold Strategy and to assign the total outstanding amount owing to Mr. Zhang Jun ("Mr. Zhang"), the sole director of Gold Strategy, and Rising Dragon Management Limited ("Rising Dragon"), the immediate holding company of Gold Strategy by the Target Group (the "Sale Loans"), at an aggregate consideration of HK\$367,000,000 (approximately RMB319,290,000) (subject to adjustment). Sale Loans as at the date of the Agreement are totaled approximately RMB13,865,000.

According to the Agreement, the consideration is to be satisfied by (i) HK\$55,000,000 (approximately RMB47,850,000) by way of a refundable deposit; (ii) HK\$25,000,000 (approximately RMB21,750,000) by way of issuance of 100,000,000 ordinary shares of HK\$0.25 each of the Company (the "Consideration Shares"); and (iii) HK\$287,000,000 (approximately RMB249,690,000) by way of cash.

The fair value of total consideration at the Completion as if the Acquisition was completed on 30 June 2010 which is to be satisfied in the following manners, is:

	<i>Notes</i>	<i>RMB'000</i>
Consideration settled by refundable deposit	6 (i)	47,850
Consideration settled by cash	6 (ii)	201,840
Consideration settled by Consideration Shares	6 (iii)	25,230
Fair value of total consideration		<u>274,920</u>

5. As the consideration includes the Sale Loans, amounts due to Mr. Zhang and Rising Dragon in the books of the Target Group were assigned to amounts due to the Group and hence these amounts become receivable balances due from the Target Group to the Group upon Completion. Consequently, the cost of investment at the Completion is thus as follows:

	Notes	RMB'000
Fair value of total consideration	4	274,920
Less: Amounts due from Target Group		<u>(13,865)</u>
Cost of investment at the Completion		<u>261,055</u>

The Sale Loans are determined based on the aggregate of the amounts due to the Mr. Zhang and Rising Dragon. This balance is to be eliminated on consolidation in the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities as shown in note 10 below.

6. The adjustment represents:

- (i) The Group has paid a deposit of HK\$55,000,000 (approximately RMB47,850,000) before 30 June 2010. Pursuant to the Agreement, the deposit will become part of the consideration immediately upon Completion.
- (ii) The estimated fair value of cash consideration is approximately RMB201,840,000, as adjusted by the fair value of contingent consideration. Pursuant to the Agreement, the cash consideration of HK\$287,000,000 (approximately RMB 249,690,000) includes contingent consideration of HK\$55,000,000 (approximately RMB47,850,000).

As one of the conditions to the Completion, cash consideration of HK\$55,000,000 (approximately RMB47,850,000) will be paid to the seller if the seller has procured the relevant People's Republic of China (the "PRC") government authorities to issue a written confirmation to the Target Group confirming that they will not invoke or propose any claim or penalties against the Target Group in respect of the over production of the Target Group which exceed the permitted production scale (the "No Claim Confirmation") on or before six months after completion of the Acquisition, otherwise, such amount will be deducted from the cash consideration.

It is considered not probable that the seller could procure the relevant PRC government authorities to issue the No Claim Confirmation as the directors of the Company consider that the Target Group would be liable for over production penalty and a provision of approximately RMB47,191,000 had been made in the consolidated statement of financial position of the Target Group at 31 March 2010 as set out in Appendix II to this circular. It is, thus, the fair value of this contingent consideration would be nil and the fair value of the cash consideration would be decreased by an amount of HK\$55,000,000 (approximately RMB47,850,000).

Upon Completion, the fair value of the contingent consideration will have to be re-assessed to determine the cost of the Acquisition pursuant to HKFRS 3 (2008). As a result of the re-assessment, the amount of goodwill may be different from that estimated as stated above for the purpose of preparing this Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group.

- (iii) Pursuant to the Agreement, the 100,000,000 Consideration Shares will be issued at an issue price of HK\$0.25 per Consideration Share, credited as fully paid. The estimated fair value per share is approximately HK\$0.29 as at 30 June 2010 based on published market price. The share capital and share premium of the Company will increase by HK\$2,000,000 (approximately RMB1,740,000) and HK\$27,000,000 (approximately RMB23,490,000), respectively. The issue of the Consideration Shares is a non-cash transaction.

Upon Completion, the fair value of the Consideration Shares issued as at that date will be used to determine the cost of the Acquisition and the amount of goodwill on acquisition at the date of Completion may be different from that estimated amount presented.

- (iv) The elimination of the issued share capital of the Target Group of approximately USD1.
- (v) The elimination of the pre-acquisition reserves of the Target Group of approximately RMB23,615,000.
- (vi) The increase in goodwill of approximately RMB44,265,000 (Note 7) and non-controlling interests of approximately RMB23,019,000 (Note 9) resulted from the Acquisition.

7. The adjustment on goodwill resulted from the Acquisition is calculated as follows:

	Carrying amount RMB'000	Fair value adjustment RMB'000	Notes	Fair value RMB'000
The Target Group				
Land use rights	15,625	–		15,625
Property, plant and equipment	5,793	–		5,793
Mining right	2,868	351,232	8	354,100
Inventories	3,056	–		3,056
Land use rights	338	–		338
Trade and other receivables	16,402	–		16,402
Cash and cash equivalents	11,744	–		11,744
Trade and bills and other payables	(12,309)	–		(12,309)
Provision for over-extraction penalty	(47,191)	–		(47,191)
Amount due to a director	(13,821)	–		(13,821)
Amount due to an immediate holding company	(44)	–		(44)
Bank borrowings	(20,000)	–		(20,000)
Other borrowings	(7,475)	–		(7,475)
Income tax payable	(2,253)	–		(2,253)
Long term payables	(1,232)	–		(1,232)
Deferred tax liability	–	(87,808)	8	(87,808)
Fair value of net assets acquired				214,925
Non-controlling interests of 8.7% in Jiangsu Longteng Petrochemical Company Limited and its subsidiaries (hereinafter collectively referred to as the “Jiangsu Group”)			9	(19,891)
Fair value of net identified assets and liabilities acquired				195,034
Goodwill on Acquisition				66,021
Cost of investment at the Completion			5	261,055
The movement on goodwill on Acquisition is presented as below:				
				RMB'000
Goodwill attributable to the Jiangsu Group before the Acquisition				21,756
Add: Increase in goodwill resulted from the Acquisition			6 (vi)	44,265
Goodwill attributable to the Target Group resulted from the Acquisition				66,021

8. During the business combination, except for mining right held by the Target Group, the directors of the Company have provisionally assessed that the carrying amounts of other identifiable assets and liabilities of the Target Group approximate their fair values on Acquisition.

The fair value of the mining right as at 30 June 2010 of approximately RMB354,100,000 was determined with reference to valuation of the fair market value of the mineral assets of the Target Group, which consist of the mining right and the planned expansion areas of the serpentine mine, carried out by Greater China Appraisal Limited an independent qualified professional valuer not connected to the Group, assuming there was no significant difference in the valuation between the date of 30 June 2010 to 31 August 2010. Details of the valuation report are set out in Appendix V to this circular.

The fair value adjustment represented the fair value increase of mining right held by the Target Group of approximately RMB351,232,000 and the corresponding deferred tax liability of approximately RMB87,808,000 charged at PRC tax rate of 25%.

Upon Completion, the fair values of the net identifiable assets and liabilities of the Target Group will have to be reassessed. As a result of the re-assessment, the amount of goodwill may be different from that estimated as stated above for the purpose of preparing this unaudited pro forma financial information and is subject to impairment review at the end of each reporting period.

9. The adjustment on non-controlling interests is calculated as follows:

	<i>Note</i>	<i>RMB'000</i>
Net identified assets and liabilities of the Jiangsu Group as at 31 March 2010 extracted from the accountant's report of the Jiangsu Group set out in Appendix II of this circular		(34,788)
Fair value adjustment on net assets of the Jiangsu Group	8	<u>263,424</u>
Fair value of net assets of the Jiangsu Group		228,636
Non-controlling interest of 8.7% in the Jiangsu Group after fair value adjustment	7	<u>19,891</u>

The movement on the non-controlling interest is presented as below:

		<i>RMB'000</i>
Non-controlling interest of 8.7% in the Jiangsu Group before fair value adjustment		(3,128)
Add: Increase in non-controlling interest resulted from fair value adjustment	6 (vi)	<u>23,019</u>
Non-controlling interest of 8.7% in Jiangsu Group after fair value adjustment		<u>19,891</u>

10. This is to eliminate the amounts due to a director and an immediate holding company as assigned under the Sale Loans.
11. The adjustment represents the estimated legal and professional fees in relation to the Acquisition as acquisition related costs are recognised in profit or loss as incurred under HKFRS 3 (2008).
12. The directors of the Company have reviewed the carrying values of the intangible assets (including goodwill and mining right) of the Enlarged Group, taking into account the independent valuation report as disclosed in Appendix V to the circular. Based on the assessment and the valuation report, the directors of the Company are of the opinion that there are no indications that the values of the intangible assets (including goodwill and mining right) of the Enlarged Group may be impaired.
- The auditors of the Company will carry out impairment review of the intangible assets (including goodwill and mining right) of the Enlarged Group with reference to an independent valuation report, which will be prepared under the same principal assumptions and valuation method as disclosed in Appendix V to the circular in the future.
13. All amounts in HK\$ are translated into RMB at the approximate exchange rate prevailing at the close of business on 30 June 2010 of HK\$1.00=RMB0.87.

**2. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION
FROM THE REPORTING ACCOUNTANT**

The following is the text of a report received from SHINEWING (HK) CPA Limited, Certified Public Accountants, in respect of the unaudited pro forma financial information of the Enlarged Group for the purpose of incorporation in this circular.

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP**

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

The Board of Directors
Century Sunshine Group Holdings Limited
Unit 3907, 39/F, Cosco Tower,
183 Queen's Road Central,
Hong Kong

Dear Sirs,

We report on the unaudited pro forma consolidated statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of Century Sunshine Group Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Gold Strategy Investments Limited ("Gold Strategy") and its subsidiaries (together with the Group hereinafter referred to as the "Enlarged Group"), set out on pages III-1 to III-8 under the heading of "Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group" of Appendix III to the circular of the Company dated 25 September 2010 (the "Circular"), which has been prepared by the directors of the Company (the "Directors"), for illustrative purposes only, to provide information about how the proposed acquisition of the entire equity interests in Gold Strategy (the "Acquisition") might have affected the financial information presented.

Respective responsibilities of Directors and the reporting accountant

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work 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. 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 on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the Directors, 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 Enlarged Group had the Acquisition been completed as at 30 June 2010 or at any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Lo Wa Kei

Practising Certificate Number: P03427

Hong Kong
25 September 2010



Competent Person's Report Donghai Serpentine Mine Jiangsu, People's Republic of China

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25 September 2010

Compiled by:

Peer Review by:

Jeremy Clark

Dan Peel

Senior Consultant Geologist

Operations Manager – Beijing

APPENDIX IV TECHNICAL REPORT ON THE SERPENTINE MINE

The following is the text of a report from Minarco, an independent technical adviser, in respect of the technical report on the Serpentine Mine as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

The Directors

Century Sunshine Ecological Technology Holdings Limited (CSETH)

25th of September, 2010

Final Report

RE: DONGHAI SERPENTINE MINE - INDEPENDENT TECHNICAL REVIEW REPORT AND COMPETENT PERSON'S REPORT.

Dear Sirs,

Minarco-MineConsult ("MMC") has been requested by Century Sunshine Ecological Technology Holdings Limited ("CS" or "the Company"), a wholly owned subsidiary of Century Sunshine Group Holdings Limited, to complete an Independent Technical Review ("ITR") of the Serpentine Mine, referred to in this report ("Report") as the Relevant Asset, in Donghai County, Jiangsu Province, PRC. The Serpentine Mine ("the mine") is to be included in a purchase transaction by CS. The asset is currently owned by Jiangsu Province Longteng Chemical Co., Ltd, 江蘇龍騰化工有限公司 ("JPLC" or "the Owner").

The process and conclusions of the ITR are summarised in the attached Independent Technical Review and Competent Person's Report (CPR), which will be included in the Hong Kong Stock Exchange ("HKEx") Circular prepared as part of this transaction.

MMC's technical team ("the Team") consisted of both International and Chinese national senior mining engineers, geologists and process engineers. The Team undertook a number of site visits to the Mine to familiarise themselves with site conditions. MMC's Competent Persons were responsible for compiling of the CPR and the JORC Mineral Resource and Ore Reserve estimates stated within.

During the site visit, the Team had open discussions with the Company personnel on technical aspects relating to the project. MMC found the personnel to be cooperative and open in facilitating MMC's work.

MMC has conducted the ITR and preparation of the report in accordance with the requirements of Chapter 18 of the Listing Rules of the Stock Exchange of Hong Kong Limited, with the exception of the requirements set out in Listing Rule 18.09 item (8) which relates to the provision of a two-year working capital statement. The report is also in compliance with:

- The "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (2004 edition published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code")); for determining resources and reserves; and

- The Code and Guidelines for technical assessment and/or valuation of mineral and petroleum assets and mineral and petroleum securities for Independent Expert Reports (the “Valmin Code”).

MMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries. This report was prepared on behalf of MMC by technical specialists, details of whose qualifications and experience are set out in *Annexure A*.

MMC has been paid, and has agreed to be paid, professional fees for its preparation of this report. However, none of MMC staff or sub-consultants who contributed to this report has any interest in:

- the Company, securities of the Company or companies associated with the Company; or
- the Relevant Asset; or
- the outcome of the acquisition.

Drafts of this report were provided to the Company, for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report. The ITR was based mainly on information provided by JPLC, either directly from the project mine site and other associated offices and design institutes. The Report is based on information made available to MMC before September, 2010.

The title of this report does not pass onto the client until all consideration has been paid in full.

In addition to work undertaken to generate estimates of Mineral Resources and Ore Reserves, this report relies largely on information provided by the Company, either directly from the site and other offices, or from reports by other organisations whose work is the property of the Company. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements, excepting such aspects as may directly influence technical, operational or cost issues.

The data relied upon for the JORC Mineral Resource and Ore Reserve estimates completed by MMC have been compiled primarily by the Company and validated where possible by MMC. MMC does not warrant the completeness or accuracy of information provided by the Owner or the Company which has been used in the preparation of this ITRR.

In MMC’s opinion, the information provided by JPLC was reasonable and nothing discovered during the preparation of the report suggested that there was any significant error or misrepresentation in respect of that information.

MMC has independently assessed the Relevant Asset by reviewing pertinent data, including Mineral Resources, future resource development plans, development potential, and potential mining issues. All opinions, findings and conclusions expressed in the report are those of MMC and its specialist advisors.

Project Summary and Conclusions

- The Donghai Serpentine Mine is located in the Jiangsu Province, PRC. It is an operating mine located 29 km northwest of Donghai County, which is approximately 700 km southeast of Beijing. The operating mine currently has a licence area of 0.4972 sq.km.
- The Donghai mine, extracts magnesium oxide rich ore from a serpentinite mineralised body. The Donghai Serpentinite Mine currently produces approximately 400 ktpa at an average grade of 38-39percent MgO. The Mine has a current crushing and screening capacity of 600 ktpa.
- The No.1 Geological Brigade of the Chemical Industry Ministry conducted geological surveys of the area between 1965 to 1966. These works were followed by exploration drilling and mapping in 1981 by the Jiangsu Province Geological Brigade No 6.
- The Jiangsu Province Geological Brigade No 6 ("JPGB") compiled a resource review report in November, 2002 and further updated the resource in January, 2007. The resource estimate was subsequently approved by the Jiangsu Province Mineral Resource Reserve Appraisal Center on April 1st, 2007.
- A mining feasibility study was compiled by the Suzhou Sinoma Design & Research Institute of Non-metallic Minerals Industry in October 2008 based on this approved resource. A further update was completed in May, 2009.
- The May 2009 mining feasibility study proposed an increase in ore production to 2 Mtpa in 2012 along with an estimated 27 year mine life. The increase in annual ore production and mine life was based on a larger pit design. The pit design extended beyond the current licence area and extended to depth beyond the current licenced elevation limit. MMC have been informed that the Company will apply for a mining licence which matches the requirements as outlined in the mining feasibility study.

APPENDIX IV TECHNICAL REPORT ON THE SERPENTINE MINE

- MMC has estimated Mineral Resources in accordance with the recommendations of the JORC Code. Mineral Resources were estimated inside the current mining licence and also inside the proposed mining licence. The Mineral Resource estimate is reported by Class 1 and Class 2 material types. The Mineral Resource estimate is shown in *Table 1*.

Table 1 Donghai Mine – JORC Mineral Resource Estimate

Area	Type	Measured		Indicated		Inferred		Total		MgO (Mt)
		Tonnes (Mt)	MgO (%)	Tonnes (Mt)	MgO (%)	Tonnes (Mt)	MgO (%)	Tonnes (Mt)	MgO (%)	
In Mining Licence (+65 ~ 17.5mRL)	Class 1 ^{note 1}	11.7	39.4	3.0	39.7	0.0	0.0	14.7	39.5	5.8
	Class 2 ^{note 2}	3.5	36.5	1.1	34.4	0.0	0.0	4.7	35.3	1.6
Expanded Mining Licence ^{note 3}	Class 1	68.7	39.9	26.4	39.9	0.0	0.0	95.1	39.9	38.0
	Class 2	4.5	35.4	4.4	36.3	0.0	0.0	8.9	35.9	3.2
Combined Mining Licences	Class 1	80.4	39.9	29.4	39.8	0.0	0.0	109.8	39.9	43.8
	Class 2	8.0	35.5	5.5	35.9	0.0	0.0	13.5	35.7	4.8

Notes:

1. Class 1 refers to material above 38% MgO,
 2. Class 2 refers to material between 32% and 38% Mgo
 3. Expanded permit boundary has been supplied to Minarco by the Target Company. Minarco understands this permit will be under application in the near future, as outlined below.
- The resource estimate is for Orebody 1 only, production from Orebody 2 and 3 commenced in 1964, however mining was subsequently shut down in 1980 due to faulting and technical problems. Mining recommenced via open cut in 1983 centred on Orebody 1. As at June 2010 mining of Orebody 1 had reached the 17.5mRL (approximately 50m deep) in some parts of the pit floor.
 - The current mining operation at Donghai involves the extraction of MgO rich ore from the serpentinite orebody through the use of open cut operations. The open cut use's standard drill and blast method with load and haul undertaken using face shovels and 15t trucks.
 - The majority of the product is sold directly to the customer with little processing, however a small portion of production is sold to local fertiliser producers.

- MMC has estimated Ore Reserves in accordance with the recommendations of the JORC Code. Ore Reserves were estimated inside the supplied expanded mining licence and reported by Class 1 and Class 2 material types. The Ore Reserve estimate is shown in *Table 2*.

Table 2. Donghai Mine – JORC Ore Reserve Estimate.

Reserve Classification	Ore Quantity (kt)	MgO Grade (%)
Class 1		
Proved	–	–
Probable	49,204	39.09
Total Class 1	49,204	39.09
Class 2		
Proved	–	–
Probable	5,907	33.61
Total Class 2	5,907	33.61
Class 1 + Class 2		
Proved	–	–
Probable	55,111	38.51
Total Class 1 + Class 2	55,111	38.51

- The open cut mining method is appropriate for the style of mineralisation and combined with a large consistently mineralised body results in low dilution and ore loss.
- The mine feasibility study proposed increasing the mine production to 2mtpa in 2012 from the current capacity of 400Ktpa, however information provided by the Company indicates that a 2mtpa production rate will not be achieved until year 9 based on the forecast market conditions.
- The company plans to engage an open cut mining contractor to undertake planned mining works. The current mining contract has fixed mining rates for the initial 5 years of the proposed increased production.

- The contractor operating costs total 6.88RMB/t ore mined, this cost includes a loading cost of 3.98RMB/t, drill and blast 0.73RMB/t and a hauling cost of 2.17RMB/t, however excludes the pre-strip cost of 5.5RMB/t which is included in the estimated capital cost. MMC believes the mining operating cost will increase as the depth of the mine increase and haulage increases. MMC considers additional costs such as dewatering and pit support have not been adequately captured in the current contract and will potentially increase the mining operating costs slightly.
- Other operating costs are estimated to be administration and overheads 4.83RMB/t, taxes and royalties 13.12RMB/t for a total estimated operating cost of 34.07RMB/t of ore mined.
- A total capital cost of 215million RMB is estimated to establish the planned 2mpta production rate and is based on the combined internal and mining feasibility studies. A significant proportion of the capital cost is associated with pre-strip of the waste material. MMC believes the pre-strip cost is overestimated and likely to decrease. Further opportunity exists to further reduce the pre-strip costs if the mining contractor can sell the waste material as proposed by the current mining contract.
- The Donghai Serpentinite Mine processes it's ore through its own crushing and screening plant prior to selling the product onto third party users.
- The processing plant whilst operational is in need of maintenance with excessive spillage and dust been generated at the transfer points. This results in re-handling of material and extra cost.

Yours Faithfully,

Philippe Baudry

General Manager – China and Mongolia

Runge Asia Limited (trading as Minarco-MineConsult)

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1 INTRODUCTION

Minarco-MineConsult (“MMC”) has been requested by Century Sunshine Ecological Technology Holdings Limited (“CS” or “the Company”), a wholly owned subsidiary of Century Sunshine Group Holdings Limited, to complete an Independent Technical Review (“ITR”) of the Serpentine Mine, referred to in this report (“Report”) as the Relevant Asset, in Donghai County, Jiangsu Province, PRC. The Serpentine Mine is to be included in a purchase transaction by CS. The asset is currently owned by Jiangsu Province Longteng Chemical Co., Ltd 江蘇龍騰化工有限公司 (“JPLC”).

The process and conclusions of the ITR are summarised in the Independent Technical Review and Competent Person’s Report, which will be included in a Hong Kong Stock Exchange (“HKSE”) Circular prepared for this transaction.

1.1 Scope of work

MMC carried out the following scope of work for the Independent Technical Review:

- Gathered relevant information on the asset including relevant licences, previous resource reports, feasibility studies and historic operating costs;
- Reviewed Chinese resource estimates. The review considered the quantity and quality of drilling, reliability of historic data, adequacy of resource estimation methods;
- Estimated JORC compliant Mineral Resources;
- Reviewed and commented on the appropriateness of the planned mining methods and mine design in the relevant technical studies,
- Reviewed and commented on forecast operating and capital expenditure in the relevant technical studies,
- Estimated JORC compliant Ore Reserves;
- Reviewed the company’s short and long term development plans, and
- Reviewed potential production profiles.

1.2 Relevant Assets

The Relevant Asset is the Donghai Serpentinite Mine (“The Mine”) located in the north of Jiangsu Province, PRC. The Mine is located 29 km northwest of the Donghai County, which is approximately 700 km southeast of Beijing, PRC.

1.3 Review Methodology

MMC's ITR methodology included the following:

- Prepared for the study by translating and reviewing existing reports. The lists of documents reviewed are given in *Section 1.5* below;
- Conducted two site visits in June and July 2010. An international senior consultant geologist, international senior mining engineer and a Chinese consultant geologist inspected the site during these visits. Technical issues were discussed with technical project personnel;
- Project information was reviewed for reasonableness, this included checks to the provided geological information and reviews of the mine planning information; and,
- MMC prepared this Report and provided drafts to the Company and its specialist advisers.

The comments and forecasts in this report are based on information compiled by enquiry and verbal comment provided by the Company. Where possible, this information has been cross checked with hard data or by comment from more than one source. Where there was conflicting information on issues, MMC used its professional judgment to assess the issues.

1.4 Site Visits and Inspections

MMC completed two site visits during the ITR. The technical team consisted of an international senior consultant geologist (Mr. Jeremy Clark), international senior mining engineer (Mr. Dan Peel) and a Chinese consultant geologist (Mr. Wenqi Zhang).

Site Visit 1 (22nd June 2010) – Mr Clark and Mr Zhang visit the Mine and held discussions with the geological bureau. The site visit included a competent person's review of the site for JORC Mineral Resource estimation.

Site Visit 2 (26th-27th July 2010) – Mr Peel and Mr Zhang visited site, observed current mining and processing operations and held discussions with the engineering design institute in Suzhou which had completed a recent feasibility study. This site visit included a competent person's review of the site for JORC Ore Reserve estimation.

The site inspections included physical inspections of the surface and open cut workings, and general inspections of the surrounding countryside and infrastructure. Open discussions were held with the project owner's personnel and associated design institutes' experts on technical issues related to the Mine. Technical personnel were found to be co-operative in facilitating MMC's work.

1.5 Key Sources of Information

The following documents were reviewed during the ITR:

Reports and Documents

- Mining Licence, Department of Land and Resources, Jiangsu Province, September 2007;
- Drillhole and assay data from Jiangsu Province Donghai County Xugou Flux Serpentine Mine Exploration Report, Jiangsu Province Geological Brigade No.6, July 1981;
- Jiangsu Province Donghai County Xugou Serpentine Mine Resource/Reserve Review Report, Jiangsu Province Geological Brigade No.6, January 2007;
- Feasibility Study of 2 Mtpa Technical Reconstruction of Jiangsu Province Longteng Chemical Co., Ltd Donghai Serpentine Mine, Suzhou Sinoma Design & Research Institute of Non-metallic Minerals Industry, May 2009;
- Feasibility Study of 2 Mtpa Serpentine Mining and Processing Plant, Jiangsu Longteng Chemical Co. Ltd., June 2010;
- Letter from Longteng Company (title to be confirmed);
- Donghai Serpentinite Mineral Resource Report, author Minarco MineConsult, August 2010; and
- Donghai Serpentinite Ore Reserve Report, author Minarco MineConsult, September 2010.

1.6 Competent Person and Responsibility

The estimation and reporting of Mineral Resources and Ore Reserves in this Competent Person's Report complies with recommendations in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (2004) by the Joint Ore Reserves Committee (JORC). Therefore the Mineral Resource and Ore Reserve estimates are suitable for public reporting.

The information in this report which relates to Mineral Resources is based on information compiled by CS and reviewed by Mr. Jeremy Clark who is a full time employee of MMC and a Member of the Australasian Institute of Geoscientists. Mr. Clark has sufficient experience relevant to the style of mineralisation, type of deposit under consideration and to the work he has undertaken to qualify as a Competent Person, as defined in the JORC Code.

The information in this report which relates to Ore Reserves is based on information compiled by CS. and reviewed by Mr. Tony Cameron who is an associate of MMC and a Member of the Australasian Institute of Mining and Metallurgy. Mr Cameron has sufficient experience relevant to the style of mineralisation, type of deposit under consideration and to the work he has undertaken to qualify as a Competent Person, as defined in the JORC Code.

Mr. Clark also meets the requirements of a Competent Person, as defined by Chapter 18 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. These requirements include:

- Greater than five years experience relevant to the type of deposit.
- Member of the Australasian Institute of Geoscientist ("AIG").
- Holds a Bachelor Degree of Science (Geology).
- Does not have economic or beneficial interest (present or contingent) in any of the reported assets.
- Has not received a fee dependent on the findings outlined in the Competent Person's Report.
- Is not an officer, employee of proposed officer for the issuer or any group, holding or associated company of the issuer.
- Assumes overall responsibility for this Competent Person's Report.

1.7 Limitations and Exclusions

The ITR was based on detailed exploration samples and assay data as well as various reports, plans and tabulations.

This report is mainly based on information provided by the project owners, either directly from the mine site and other offices, or from reports by other organisations whose work is the property of the Company. The data relied upon for the Chinese Resource estimate has been compiled by the Jiangsu Province Geological Brigade No 6 on the behalf of the Company. The information was prepared for the Relevant Asset and verified by MMC through a stringent independent quality control and quality assurance program. The Company has not advised MMC of any material change, or event likely to cause material change, to the designs or forecasts since the date of asset inspections.

The work undertaken for this report is that required for an Independent Technical Review of the information coupled with such inspections as MMC considered appropriate to prepare this report. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements.

MMC has also avoided making any comments on the competitive position of the Asset compared with other similar and competing producers. MMC strongly advises that any potential investors make their own comprehensive assessment of both the competitive position of the Relevant Asset in the market, and the fundamentals of the market at large.

Limited Liability

MMC will not be liable for any loss or damage suffered by a third party relying on this report (regardless of the cause of action, whether breach of contract, tort (including negligence) or otherwise unless and to the extent that the third party has signed a reliance letter in the form required by MMC (in its sole discretion). MMC's liability in respect of this report (if any) will be specified in that reliance letter.

Responsibility and Context of this Report

The contents of this report have been created using data and information provided by or on behalf of the Company. MMC accepts no liability for the accuracy or completeness of data and information provided to it by, or obtained by it from, the Company or any third parties, even if that data and information has been incorporated into or relied upon in creating this report.

This report has been produced by MMC using information that is available to MMC as at the date stated on the cover page. This report cannot be relied upon in any way if the information provided to MMC changes. MMC is under no obligation to update the information contained in the report at any time.

Intellectual Property

All copyright and other intellectual property rights in this report are owned by and are the property of MMC.

MMC grants the Company a non-transferable, perpetual and royalty-free Licence to use this report for its internal business purposes and to make as many copies of this report as it requires for those purposes.

Mining Unknown Factors

The findings and opinions presented herein are not warranted in any manner, expressed or implied. The ability of the operator, or any other related business unit, to achieve forward-looking production and economic targets is dependent on numerous factors that are beyond the control of MMC and cannot be fully anticipated by MMC. These factors included site-specific mining and geological conditions, the capabilities of management and employees, availability of funding to properly operate and capitalise the

operation, variations in cost elements and market conditions, developing and operating the mine in an efficient manner, etc. Unforeseen changes in legislation and new industry developments could substantially alter the performance of any mining operation.

1.8 Capability and Independence

MMC provides advisory services to the mining and finance sectors. Within its core expertise it provides independent technical reviews, resource evaluation, mining engineering and mine valuation services to the resources and financial services industries.

MMC has independently assessed the Relevant Asset by reviewing pertinent data, including resources, reserves, manpower requirements and the life of mine plans relating to productivity, production, operating costs and capital expenditures. All opinions, findings and conclusions expressed in this Report are those of MMC and its specialist advisors.

Drafts of the Report were provided to the Company, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in this Report.

MMC has been paid, and has agreed to be paid, professional fees based on a fixed fee estimate for its preparation of this Report. None of MMC or its directors, staff or specialists who contributed to this report has any interest or entitlement, direct or indirect, in:

- the Company, securities of the Company or companies associated with the Company; or
- the Relevant Asset; or
- the outcome of the acquisition.

This ITR was prepared on behalf of MMC by the signatories to this letter, details of whose qualifications and experience are set out in *Annexure A* to this ITR. The Specialists who contributed to the findings within this Report have each consented to the matters based on their information in the form and context in which it appears.

2 PROJECT OVERVIEW

2.1 Project Location and History

The Jiangsu Donghai Serpentine Mine is located in the north of the Jiangsu Province, China. It is located 29 km to the northwest of Donghai County, Jiangsu Province, as shown in *Figure 2-1*. The geographical coordinates are:

- Easting: 118° 29' to 118° 31'.
- Northing: 34° 36' to 34° 38'.

2.2 Regional Enviroment

The surface elevation of the licence area ranges from 53 m to 85.5 m above sea level. The licence area increases in elevation from southwest to northeast. The region is a sub-humid climate in the North China warm-temperature zone with four distinctive seasons. It is relatively dry during the year but has potential for heavy rain in summer.

2.3 Licences and Approvals

Mining licence details for the Donghai Operation are displayed in *Table 2-1* Donghai Mine - Mining Licence Details.

Table 2-1 Donghai Mine - Mining Licence Details

Mine/Project	Donghai
Title	Mining Licence
No	3200000720015
Owner	Jiangsu Province Longteng Chemical Co., Ltd
Mine/Project Name	Jiangsu Province Longteng Chemical Co., Ltd Donghai Serpentinite Mine
Mine Method	Open Cut
Permit Capacity	0.3 Mtpa
Permit Area	0.4972 km ²
Permit Depth	65 mRL- 17.5 mRL
Valid Date	September, 2007 – September, 2017
Issue Date	13th, September, 2007
Issuer	Department of Land & Resources, Jiangsu Province

Source: MMC viewed a copy of the document

The Mining Licence coordinates are as follows;

Table 2-2 Donghai Mine - Mining Licence Coordinates

Point	X	Y
1	3834218	39636936
2	3834450	39636950
3	3834834	39637052
4	3834826	39637148
5	3834862	39637152
6	3834823	39637341
7	3834850	39637414
8	3834826	39637500
9	3834860	39637652
10	3834860	39637680
11	3834856	39637790
12	3834760	39637832
13	3834746	39637862
14	3834566	39637818
15	3834414	39637682
16	3834275	39637511
17	3834182	39637480
18	3834117	39637420

Source: MMC viewed a copy of the document

MMC recommends that land titles and ownership be reviewed by the Companies legal due diligence team. For this reason, MMC provides this information for reference only, and should not be relied upon.

MMC notes that a significant portion of the Mineral Resource and Ore Reserve estimates described in the Report are below the current licence's maximum depth and or outside the area of the current mining licence. The Company has advised MMC that it plans to apply for a deeper mining licence with a larger surface licence area. The licence co-ordinates and depth will reportedly align with the licence requirements outlined in the "Feasibility Study of 2 Mtpa Technical Reconstruction of Jiangsu Province Longteng Chemical Co., Ltd Donghai Serpentine Mine," completed by the Suzhou Sinoma Design & Research Institute of Non-metallic Minerals Industry in May 2009. This feasibility study has been referred to in the Report as the "Mining Feasibility Study".

The Mineral Resource and Ore Reserve estimates in this Report are conditioned on the premise that the revised mining licence, as described in the Mining Feasibility Study, will be granted.

2.4 Historic Exploration

Modern geological works commenced in the early 1980's and with 5 drill profiles having been carried out over Orebody 1. The profiles are set up at right angle to the mineralisation strike and are spaced 200 m apart. The profiles cover areas both inside and outside of the current and expanded mining licence.

Drillholes at the Donghai mine have been carried out over multiple generations, with latest round of drilling carried out in 1981. The current drill spacing over the project area is 200 m x 100 m on average with some of the pre 1981 drilling bringing the spacing down to 200 m x 50 m in places.

A total of 29 holes have been carried out over the immediate project area with numerous historical holes outside the mine area. A total of 21 deep diamond drill holes have been used in the estimate, totalling 3,772m. A further 8 shallow holes were carried out along with some trenching at surface to assist with the interpretation. A summary for geological information gathered is summarised in *Table 2-3*.

The No.1 Geological Brigade of the Chemical Industry Ministry conducted the geological investigation of this area from 1965 to 1966. The Jiangsu Province Geological Brigade No. 6 completed the exploration of the largest Orebody 1 and submitted an exploration report in 1981.

The Jiangsu Province Geological Brigade No. 6 (JPGB) compiled a resource review report in November, 2002 and further updated the resource in January, 2007. The resource estimate was subsequently approved by the Jiangsu Province Mineral Resource Reserve Appraisal Center on April 1st, 2007.

A feasibility study was compiled by the Suzhou Sinoma Design & Research Institute of Non-metallic Minerals Industry in October 2008 based on this approved resource. A further update was completed in April, 2009 following MMC's original review of the project.

Table 2-3 Donghai Mine - 1980 Geological Survey Work

1980 Geological Survey Work

Topography survey	1/2000, 4.83km ²
Mapping Scale	1/2000, 2.85km ²
Drill hole	21 holes, 3,772.42m in total
Type of hole	Diamond drilling

Shallow drill hole	8 holes, 158.79m
Trenching	2611.8m ³
Samples	2,485 samples (for various samples)

Source: Exploration Report 1981

2.5 History of Mining

The mine commenced the production of Orebody 2 and 3 in 1964. The mine subsequently shut down in 1980 due to a fault and other technical problems. Mining recommenced via open cut in 1983 centred on Orebody 1.

In July 2010, MMC observed mining occurring at Orebody 1 at an elevation of 17.5 mRL. This mining elevation is equivalent to approximately 60 m in depth compared to the surrounding topography. The 17.5 mRL is the depth limit of the current mining licence.

Figure 2-1 Donghai Mine - General Location Plan

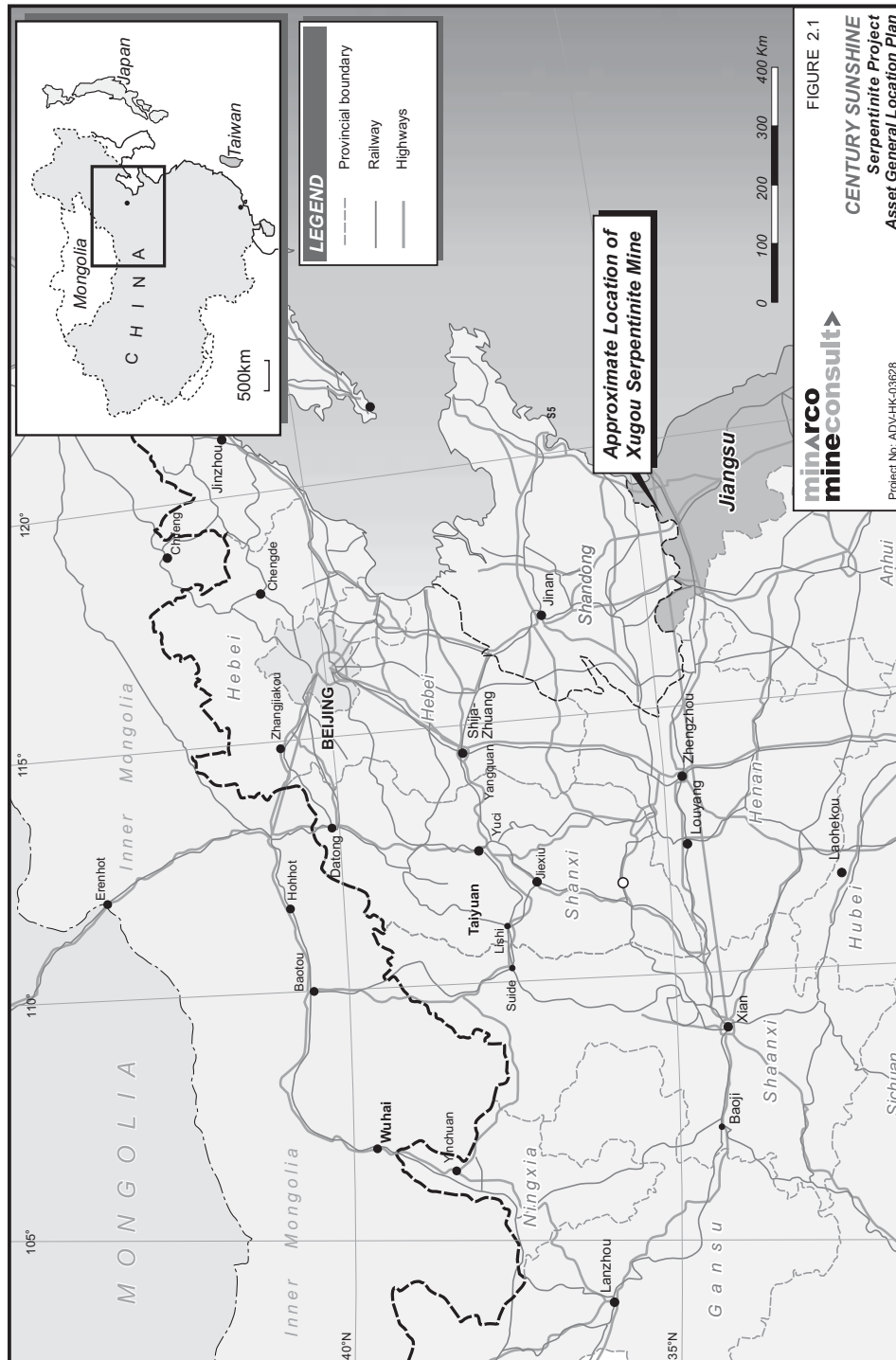


Figure 2-2 Donghai Mine - Mine Lease Area



3 GEOLOGY

The Donghai Serpentinite Mine is located at the northern edge of Yangtze platform, to the east of Tanlu fracture zone, adjacent to the North China platform. It is in the southeast of Dabie – Sulu high grade metamorphic zone.

The surrounding country rock is predominantly made up of metamorphic rocks from the Lower Proterozoic Donghai Group such as biotite plagioclase gneiss, dolomite monzonite gneiss, granulite, and granite migmatites. The 3 known orebodies of the Donghai Mine are all hosted within differentiated ultra basic rocks of similar age, which have undergone extensive serpentinisation. The hanging and foot wall contacts of the orebodies are usually made up of more ultra basic rocks which gradually become more mafic towards the centre. The orebodies have been intruded by a series of barren rocks ranging oldest to youngest from diorite porphyrite, monzonite, granite porphyrite and lamprophire. These intrusive units appear to have formed nearer the contact of the orebody and whilst they are extensive in length they are generally thin (2-10m) and should not have material impact on the mineralisation volume estimates. Most of the deposit is covered by Quaternary eluvial sediments ranging in thickness on average from 0.5-2m, but can reach up to 7m thick.

The dominant structure in the mining area is monoclinic with SE dip. The strike is 45° to 55° and dip angle is 50° to 70° with some variations nearer the orebodies. Two main faulting events have been identified with the earlier structure forming the conduit for the emplacement of the ultra basic rocks which host the orebodies. The early stage fault strikes 40° to 50° and dips 30° to 40° to the SE. The well developed late stage faulting structures are derivative structures of the Tanlu fracture zone. The most important fault in this late stage series is a steeply dipping NNE fault which truncates the western end of Orebody 1 with a strike of 18°, and width of 120 to 230m.

The igneous rocks in the mining area are mainly ultra basic rocks. Rocks have been changed to serpentine by retrograde metamorphism, with local schist alteration controlled by the early NE strike structural event. There are five known ultra basic units in the area. The largest of these has been truncated by late stage NE faulting which has resulted in the formation of Orebody 1, 2 and 3. Orebody 1 forms the biggest body, with a surface area of 0.32km², strike length of 1,200m, 194-415m width and 80-239m thickness. It is bounded both to the west and east by late stage faults.

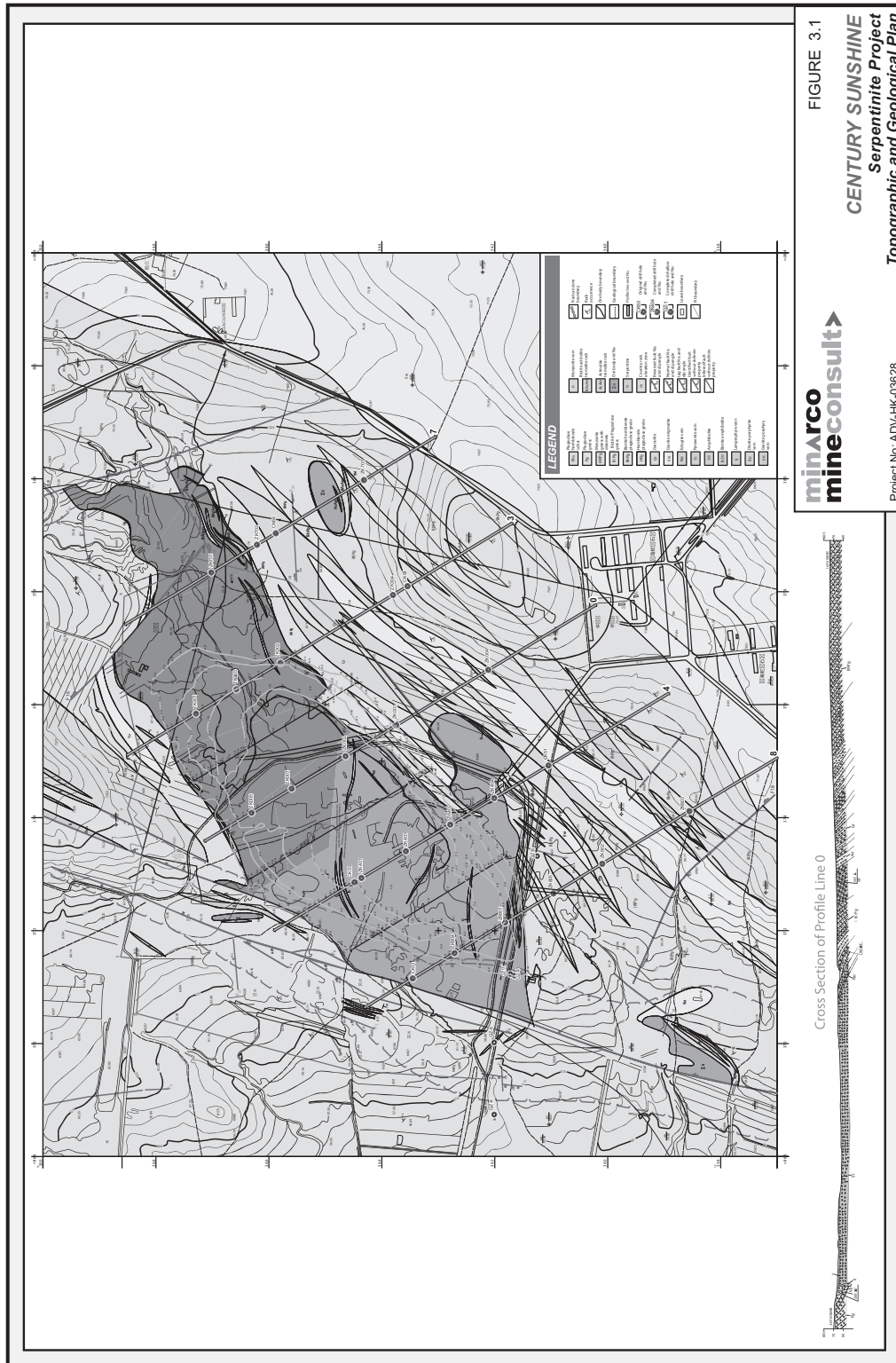
A function of serpentinisation as occurred at the Donghai Mine is the retrograde metamorphism of ultrabasic group minerals to lower grade end members such as chrysotile. MMC identified numerous veins of chrysotile within the mine during the site visit. Whilst this mineral has genuine commercial applications for electrical and fire insulation, it is also one of the leading causes of asbestosis when in airborne form. Careful management of this risk needs to be considered through all stages of mining and processing to reduce health risk to employees.

The ore type is massive serpentine. According to the bulk chemical analysis the ore consists of approximately 39.% of MgO, 39% of SiO₂ and others in average. It can be classified into two kinds of industrial classes by use. Class 1 has been used as a smelting solvent and Class 2 has been used to produce fertilisers. The characteristics of Class 1 and 2 are shown in *Table 3-1* below.

Table 3-1 Donghai Mine - Ore Class Characteristics

Ore Type	MgO %	Al ₂ O ₃ %	CaO %
Class 1	≥38	≤1.6	
Class 2	≥32		≤3

Figure 3-1 Donghai Mine - Topographical and Local Geology Plan
showing Profiles and Drillholes



4 RESOURCES

A standalone detailed Resource Report and Statement has been prepared for the asset above, for which JORC Resources have been estimated. The report, entitled 'Donghai Resource Estimate Report' has been compiled with appropriate 'Competent Person Sign off' by Jeremy Clark. This ITR document contains extracts from this standalone detailed JORC Resource Report.

4.1 Data Verification

Further checks of the digital data by MMC included:

- Verification of the digital data was completed by reviewing hard copy drill hole reports, the reports included the drill collar locations, down hole surveys and assays.
- CPM provided scanned copies of the original drill logs for all holes completed. Comparisons of these certificates with the digital database constructed by MMC indicated no errors.

Although MMC has not witnessed the sampling methodology, the Company supplied the assay and sampling procedures of the core and channel samples in writing. Upon review of these procedures MMC believes that industry standard practices are being used, that will result in the samples that can be used for resource estimation.

4.1.1 *Quality Assurance and Quality Control*

Quality Control and Quality Assurance (QAQC) checks were carried out thoroughly by the institute with both internal and external controls undertaken totalling respectively 7.6% and 5.36% of the total samples taken in 1981. MMC has reviewed the check information and considers the results to be of high standard and well within the allowable limits for resource estimation.

4.2 Mine Resource Statement

MMC has independently estimated the Mineral Resources contained within the Donghai Serpentinite Mine, based on the data collected by the local Chinese Bureau as at June 2010. The Resource estimate and underlying data complies with the recommendations in the Australasian Code for Reporting of Mineral Resources and Ore Reserves prepared in 2004 by the Joint Ore Reserves Committee (JORC). Therefore it is suitable for public reporting. The MMC JORC Resource estimate is summarised in **Table 4-1** and reported using both inside the current mining licence and within the planned expanded licence.

Table 4-1 Donghai Mine - MMC JORC Resource Estimate

Area (Mt)	Type (%)	Measured		Indicated		Inferred		Total		MgO
		Tonnes (Mt)	MgO (%)	Tonnes (Mt)	MgO (%)	Tonnes (Mt)	MgO (%)	Tonnes (Mt)	MgO	
In Mining Licence (+65 ~ 17.5mRL)	Class 1 ^{note 1}	11.7	39.4	3.0	39.7	0.0	0.0	14.7	39.5	5.8
	Class 2 ^{note 2}	3.5	36.5	1.1	34.4	0.0	0.0	4.7	35.3	1.6
Expanded Mining Licence ^{note 3}	Class 1	68.7	39.9	26.4	39.9	0.0	0.0	95.1	39.9	38.0
	Class 2	4.5	35.4	4.4	36.3	0.0	0.0	8.9	35.9	3.2
Combined Mining Licences	Class 1	80.4	39.9	29.4	39.8	0.0	0.0	109.8	39.9	43.8
	Class 2	8.0	35.5	5.5	35.9	0.0	0.0	13.5	35.7	4.8

Notes:

1. Class 1 refers to material above 38% MgO,
2. Class 2 refers to material between 32% and 38% MgO
3. Expanded permit boundary has been supplied to Minarco by the Target Company. Minarco understands this permit will be under application in the near future, as outlined below.

One Surpac block model was generated to encompass all mineralisation within the Project Area. The resource model was estimated constrained by resource outlines of the Class 1 and Class 2 material and the internal waste material (*Figure 4-1*). Within these zones the estimate was constrained and guided by geospatial analysis. The block dimensions used in the model were 50m NS by 40m EW by 10m vertical with sub-cells of 6.25m (Y), 5m (X) and 1.25m (Z).

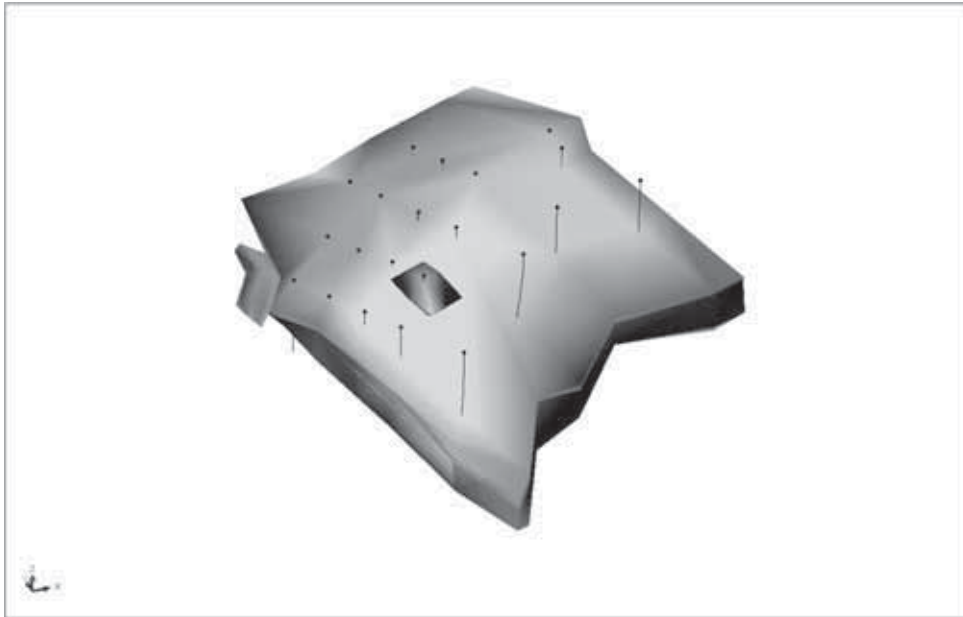
Ordinary Kriging method of estimation was used to interpolate the block model. Estimation was based on all surface diamond holes, which have a nominal spacing of approximately 200m. Open pit mining has occurred in the near surface material in the western portion of the deposit, which MMC has depleted the resource estimate with 3D survey shapes.

The Mineral Resource within the expanded licence area were classified as JORC Measured and Indicated Mineral Resource based on sampling, drill density and known mining history. Mineralisation within the deposit is well understood and the current drill hole and mining data has enable a detailed understanding of the controls of mineralisation to be established. The deposit has a long history of mining which has confirmed the grade and mineralisation continuity displayed within the drill holes.

On consideration of the well understood controls of mineralisation, the long history of mining and the displayed excellent grade and geology continuity the portions of the deposit estimated based on sample spacing of 200 m by 100 m or less were classified as Measured Mineral Resources. The remainder of the deposit within the current and planned licence areas which were supported by drill spacing less than 200 m by 200 m were classified as Indicated Mineral Resources.

The resource model is undiluted, so appropriate dilution needs to be incorporated in any evaluation of the deposits within the area.

Figure 4-1 – Donghai Serpentinite Project – Surpac 3D Model Plan View



4.2.1 Resource Estimate Parameters

- The Serpentine mineralisation covers a 1,500 m by 1,200 m lateral extent from 3,833,600mN to 3,835,000mN and 39,637,000mE to 39,638,200mE. The known resource reaches a maximum depth of 360 m from surface.
- A site visit was conducted by Jeremy Clark and Wenchi Zhang in June 2010.
- A total of 21 drill holes and surface working were used to define the extent of mineralisation with the deposit. Drilling has been conducted on 200 m spaced NW-SE sections from surface.
- The diamond holes range in depth from 60 to 300 m with all being drilled vertically.
- Holes were sampled to lithological boundaries with a maximum of 4.4 m forming one sample.
- All sampling preparation was completed following industry standard procedures and assayed by the laboratory of Jiangsu Province Geological Brigade No 6 and the laboratory of Jiangsu Province Geological Bureau.
- Quality Control and Quality Assurance (QAQC) checks were carried out thoroughly by the institute with both internal and external controls undertaken totalling 7.6% and 5.36% of the total samples taken in 1981. MMC has reviewed the check information and considers the results to be of high standard and well within the allowable limits for resource estimation.
- Wireframes were constructed based on 3 dimensional interpretations of the Serpentinite body extents. Mineralised envelopes were constructed using nominal 32% MgO (Class 2) and 38% MgO (Class 1) cut-off grade.
- MMC was supplied with all drill collars in 3 degree zone Chinese 54 system grid, and down hole surveys were supplied for all holes.
- Samples within the wireframes were composited to an even 2.5m. No high grade cut was used for the MgO.

- One Surpac block model was generated for the estimate to encompass the full extent the mineralisation. The block model was constructed using a block size of 50m by 40m by 10m with sub-blocks size of 6.25m by 5m by 1.25m.
- Ordinary Kriging was used to estimate MgO using drill hole composites. A first pass radius of 300m with 10 minimum samples for the serpentine mineralisation was utilised. This radius was based on the interpreted geospatial analysis and sample density within the mineralised zone. A search radius of 300m with 600m was used for the second, with the minimum number of composites decreased from 10 to 5. To fill the remainder of the block model a search radius of 600m with 1 minimum composites used.
- A Bulk density value of 2.69t/m³ was used for orebody in class I and 2.48t/m³ was used for mineralised body II. A bulk density value of 2.7t/m³ was used for felsic dykes and all waste material.

5 ORE RESERVE ESTIMATION

A standalone detailed Ore Reserve Report and Statement (September 2010) has been prepared for the Relevant Asset, for which JORC Ore Reserves have been estimated. The report, entitled 'Donghai Ore Reserve Estimate Report' has been compiled with the relevant 'Competent Person Sign off' by Mr Tony Cameron. This Report contains extracts from the standalone detailed JORC Ore Reserve Report (September 2010).

5.1 Background

The JORC code defines Ore Reserves as the economically mineable portion of a Measured and/or Indicated Mineral Resource, taking into account any diluting materials and allowances for losses, which may occur when the material is mined. To enable the estimation of Ore Reserves MMC has:

- Characterised the deposit;
- Reviewed the applied mining method and current life of mine designs;
- Estimated appropriate rates of mining loss and ore dilutions;
- Verified the cut off grades applied in the preliminary design report as suitable for use in an Ore Reserve estimate; and
- Completed an operating cost assessment to determine the economic viability of extraction of the Ore Reserves.

This process and the findings are outlined in more detail below.

5.2 Description of Mining Method

The applied mining method is the conventional drill & blast and load & haul mining method that is currently used at the operation. The ore and waste material is blasted on 10 m benches. Due to the presence of ground water a water proof emulsion explosive is used. The material is loaded as a single 10 m bench using small face shovels and hauled from the pit using small rigid dump trucks. The ore is hauled directly to the crusher where it is dumped directly into the crusher bin. Waste is hauled to a waste dump adjacent to the pit. The current haul distances are relatively short.

5.3 Reserve Estimation Parameters

MMC has been supplied with historical data as well as three versions of the feasibility study by Suzhou City Zhongcai Non-Metal Mine Industrial Design Institute Co. Ltd. A site visit was undertaken in order to assist in determining suitable operating parameters to apply to the Ore Reserve estimation.

The following mining parameters have been applied to the Ore Reserve estimate:

- Pit slope parameters are as calculated in the feasibility study. The footwall varies between 32 degrees and 42 degrees overall and the highwall has an overall design angle of 42 degrees;
- Haulage ramp 13 m wide and 8% gradient;
- Mining Depth Limit -72.5 mRL;
- Minimum mining width 30m; and
- A mining recovery factor of 98% and a dilution factor of 2% have been applied.

The Optimisation Parameters are summarised below in *Table 5-1*.

**Table 5-1 - Donghai Serpentinite Mine
– MMC Estimated JORC Ore Reserves Optimisation Parameters**

Type	Item	Units	Value
Physical Properties	Max Slope Angle	Degrees	42° overall
	Ore Loss	% weight	2%
	Ore Dilution	% weight	2%
	Dilutant Grade	% Mg	0%
	Material Used	Category	Meas & Ind
Operating Cost, Revenues and Royalties	Mining Cost - Ore and Waste	USD/t ore	block specific
	Ore Processing	USD/t ore	\$1.00
	Admin and Overheads	USD/t ore	\$0.71
	Base Case MgO price	USD/t	\$9.70
	VAT and Resource Taxes		
	Steel (Flux)	USD/t ore	\$1.65
	Fertilizer	USD/t ore	\$0.29
	Revenue factor range	% of base case	0% to 150%

5.4 Reserve Estimation Procedure

Ore Reserves were estimated using Whittle 4D and Surpac Mine Planning Software. The Ore Reserve estimation applied the life of mine design parameters to the 3-D geological model created for the Mineral Resource estimate. The following steps were completed to accurately estimate Ore Reserves:

1. The block model was re-blocked to 20 m x 20 m x 5 m mining blocks.
2. A 98% mining recovery factor was applied and a mining dilution of 2% was added. This is based on estimates based on the ore/waste boundaries, equipment size and the mining. The grade of the applied dilution material was 0 % MgO.
3. The block model was then imported into Whittle 4D where operating costs and revenues were applied in order to find the optimal mining sequence.
4. The optimal final pit shell was compared with the final design prepared by Suzhou City Zhongcai Non-Metal Mine Industrial Design Institute Co. Ltd. The shell matched the design hence the design was accepted for use in estimating reserves.
5. Tonnages and grades of waste and ore contained within the final pit design were estimated using Surpac Mining Software.

6. A mining schedule was developed using “Minesched” mining software assuming a combined processing rate of 2 Mtpa Class 1 and Class 2 ore.
7. The estimated Ore Reserves were classified as Proved and Probable based on consideration of Mineral Resource Classification and additional operating considerations. As the mining of the estimated Reserves is dependent on the approval of suitable mining licences, MMC has classified all Ore Reserves as Probable.

The Ore Reserves estimate for the Donghai Serpentinite Mine has been summarised below in *Table 5-1*.

Table 5-2 - Donghai Serpentinite Mine – MMC Estimated JORC Ore Reserves

Reserve Classification	Ore Quantity (kt)	MgO Grade (%)
CLASS 1		
Proved	–	–
Probable	49,204	39.09
Total	49,204	39.09
CLASS 2		
Proved	–	–
Probable	5,907	33.61
Total	5,907	33.61
COMBINED CLASS 1 and 2		
Proved	–	–
Probable	55,111	38.51
Total	55,111	38.51

6 MINING

The Donghai open-cut serpentinite mine commenced mining operations in Orebody 1 in 1983. The mine currently has a licenced ore production capacity of 300 ktpa. A Mining Feasibility Study was completed by the Suzhou City Zhongcai Non-Metal Mine Industrial Design Institute Co. in May 2009. The Mining Feasibility Study outlines an increase in ore production to 2 Mtpa in 2012.

The Report includes a summary of findings following MMC's review of the Mining Feasibility Study as well as comments on other operating options and scenarios presented to MMC by the Company.

6.1 Mining Licence

As outlined in *Section 2* of the ITR, the current mining licence has an approved ore production capacity of 300 ktpa and a maximum mining depth of 17.5 mRL. Mining has already been completed to the 17.5 mRL elevation in some areas of the current pit. To enable the completion of the mine plan proposed in the Mining Feasibility Study Report, the licence area will need to be increased to enable the current pit crest to be extended and the current pit depth to be increased to a maximum mining depth of -72 mRL.

MMC has been advised by the Client that there are no legal impediments to the granting of the updated mining licence. MMC has been informed that an updated mining licence for an increase to 600 ktpa is currently pending approval.

6.2 Pit Design

The current pit has been mined to a depth of approximately 60 m and has been largely developed within the boundaries of the No. 1 Orebody and the current licence area. Historical waste stripping has been very low. The proposed pit design extends further to depth and encompasses a greater quantities of waste mining. The proposed pit design parameters are outlined below:

- The proposed pit design extends a further 90 m in depth for a maximum pit depth of 150 m.
- The overall slope angles vary from 36 degrees to 42 degrees.
- Safety berms are 9 m in width and occur every 10 m vertical.
- The ramp is planned to be 13 m in width.

These design parameters appear reasonable for this style of operation.

The estimated pit quantities on a bench by bench basis are outlined below. The impact of the waste quantities in the upper benches is discussed in more detail in *Section 5.4*. MMC reviewed the quantities in Mining Feasibility Study and believe the waste quantities in the upper benches have been over-estimated.

Table 6-1 Donghai Mine – Mining Feasibility and MMC Pit Quantities (by bench)

Elevation (mRL)	Feasibility Study			MMC Estimate		
	Ore (kt)	Waste (kt)	Cumulative Strip Ratio (t:t)	Ore (kt)	Waste (kt)	Cumulative Strip Ratio (t:t)
57.5	–	10,141	–	149	6,163	–
47.5	–	5,480	–	1,128	3,935	7.91
37.5	2,304	3,976	8.51	2,751	3,097	3.28
27.5	4,279	2,599	3.37	3,964	2,267	1.93
17.5	6,143	1,896	1.89	6,007	1,609	1.22
7.5	6,192	1,114	1.33	6,231	868	0.89
-2.5	5,963	608	1.04	6,063	474	0.70
-12.5	5,819	261	0.85	5,741	231	0.58
-22.5	5,408	113	0.73	5,362	98	0.50
-32.5	4,972	27	0.64	4,659	54	0.45
-42.5	4,159	24	0.58	4,117	58	0.41
-52.5	3,589	24	0.54	3,551	58	0.38
-62.5	3,163	54	0.51	3,021	79	0.36
-72.5	2,406	27	0.49	2,367	59	0.35
Total	54,397	26,343		55,111	19,052	

The pit designed in the Mining Feasibility Study has been limited to the -72.5mRL as a safety stand-off of 200 m is required between blasting activities and site infrastructure. If the pit was to extend any deeper, the pit crest would encroach within the 200 m safety radius for the crusher plant. The Mining Feasibility Study indicates that the pit would be economic at greater depth.

6.3 Mining Method

The open cut mining method currently applied is a conventional drill & blast and load & haul mining method. The ore and waste material is blasted on 10 m benches. Due to the presence of ground water a water proof emulsion explosive is used. The material is loaded as a single 10 m bench using small face shovels and hauled from the pit using small rigid dump trucks. The ore is hauled directly to the crusher where it is directly dumped. Waste is hauled to a waste dump adjacent to the pit. The current haul distances are relatively short.

The Mining Feasibility Study proposes an identical mining method as that currently applied. The only variation to the current mining method will be the size and quantity of the mining equipment utilised. MMC have been informed that the Company are planning on utilising a mining contractor to complete the mine excavation and hauling activities.

6.4 Production

JPLC reports an annual ore production of 437 kt and 438 kt in 2008 and 2009 respectively. Ore mining accounted for nearly 100% of all material mined during these periods. The very low strip ratio has historically been achieved due to the shallow pit with most mining activity occurring within the boundaries of the main ore body.

To achieve the mine plan outlined in the Mining Feasibility Study, the current pit will increase in depth and area. This will result in a higher stripping ratio, particularly in the early years of the mine plan. As the ore body has been nearly completely mined to a depth of approximately 50 m, waste pre-strip will be required in the upper benches of the proposed pit design.

MMC has been advised of two possible ore production profiles, these are summarised below.

6.4.1 Ore Production Profile 1

The first production profile has been advised to MMC by JPLC and is supported by the Mining Feasibility Study. The ore production profile for 2011, 2012 and 2013 is 600 kt, 1,200 kt and 2,000 kt respectively with an annual ore production of 2,000 ktpa thereafter (for a 27 year mine life).

This is a technically achievable mine plan, however, there may be some delays achieving an ore production rate of 1,200 kt in 2011 as this would require completion of additional infrastructure, crushing facilities and other support facilities for the mine. If the expansion commences in the near future, the mine should be able to achieve an ore production rate of 2,000 kt by 2012 (dependent on provision of appropriate mining licences).

The mine plan in the Mining Feasibility study schedules a significant portion of pre-strip mining in the first two years of the mine development. MMC does not consider this to be the most cost effective or efficient way to develop the pit. The pit development strategy should consider a series of small cutbacks to minimise the quantity of waste mining required prior to accessing the deeper ore zones. Additionally, mine planning should be completed to manage the total material movement to ensure there is sufficient mining equipment and support facilities to complete the waste stripping and ore mining. If the mine development and the waste mining schedule are not carefully managed, it may have a material impact on the project cashflows in the early years of the schedule or impact on the annual mined ore tonnes.

A balanced waste schedule could be completed to achieve the ore production profile outlined above.

6.4.2 Ore Production Profile 2

A second production profile has been provided by the Company. This production profile is based on the completion of market research on serpentinite products. The Company provided MMC with a target annual ore production and MMC completed a high level mining schedule applying the Mineral Resource geological model and Ore Reserve pit design. The ore production has a significantly slower ore production ramp with an annual production rate of 2 Mtpa occurring in Year 9 of the mining schedule.

The schedule was based on 3 cutbacks which spreads the pre-strip over a ten year period. The schedule is shown in *Table 6-2*.

As stated, the ore production in the second schedule is based on a marketing study completed by the Company. MMC notes, however, that the current schedule combines Class 1 and Class 2 ore to achieve the total forecast ore production. This aligns with the Company's plans to sell a combined Class 1 and Class 2 ore product as flux. This is a variation to historic practice where Class 1 has been sold as flux and Class 2 has been sold as fertilizer products. There does not currently appear to be detailed consideration as to the average MgO grade produced over the mining schedule and it is noted that the average grade dips slightly in the earlier years.

If the lowering of the MgO grade effects the marketability of the product then ore stockpiling, along with more detailed mine planning, may need to be completed. This may also impact on operating costs and cause fluctuations in the ore and waste production profiles over the life of mine.

6.5 Waste Management

MMC has been informed that the pre-strip waste material is suitable for use in civil engineering purposes. During the site visit, MMC observed waste being hauled from site reportedly for sale. JPLC currently estimates that the top 30 m of pre-strip waste can be sold at a rate of approximately 2 Mtpa.

Waste that is not sold is planned to be stored on site in a waste dump adjacent to the open pit. The planned waste dumping area outlined in the Mining Feasibility Study is insufficient to store all the waste generated in the current mine plan. If a significant portion of the pre-strip waste cannot be sold, then an additional mining licence extension will be required to ensure there is sufficient dumping capacity.

Table 6-2 Donghai Mine – Adjusted Mining Schedule (applying advised marketing study based ore production)

Schedule Adjusted as Advised for Marketing Study

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total
Class1 Ore																																
kt	483	651	830	1,107	1,402	1,185	1,195	1,662	1,865	1,990	1,977	1,921	1,917	1,894	1,670	1,778	1,715	1,538	1,487	1,808	1,614	1,537	1,752	1,901	1,910	1,994	1,931	1,956	1,977	2,000	559	49,204
MgO%	39.1%	39.0%	39.1%	39.1%	39.0%	38.8%	38.8%	38.9%	39.0%	38.8%	39.1%	38.9%	38.7%	38.7%	38.9%	38.6%	38.8%	38.9%	39.1%	39.2%	39.6%	39.8%	39.8%	39.6%	39.5%	39.4%	39.2%	39.1%	38.9%	39.0%	39.0%	38.7%
Class 2 Ore																																
kt	137	269	340	179	0	372	516	204	135	10	23	79	83	106	330	222	285	462	513	192	386	463	248	99	90	6	69	44	23	20	0	5,907
MgO%	34%	33%	33%	35%	0%	34%	33%	33%	33%	33%	35%	36%	36%	35%	34%	34%	34%	33%	33%	34%	33%	34%	34%	33%	33%	32%	33%	33%	32%	32%	32%	32.8%
Total Ore Mined	620	920	1,170	1,286	1,402	1,557	1,711	1,866	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	579	55,111
Total Ore Grade	37.9%	37.3%	37.3%	38.5%	39.0%	37.6%	37.1%	38.3%	38.6%	38.8%	39.0%	38.7%	38.6%	38.6%	38.2%	38.1%	38.1%	37.6%	37.6%	38.8%	38.4%	38.4%	39.1%	39.3%	39.2%	39.4%	39.0%	39.0%	38.9%	39.3%	37.7%	38.1%
Waste	2,333.0	1,394	913	643	691	746	820	908	935	935	966	1,073	957	1,053	1,054	1,170	593	524	350	248	213	139	48	55	33	36	39	55	60	68.53	-	18,983
Total Movement	2,953	2,314	2,083	1,929	2,093	2,303	2,531	2,774	2,935	2,935	2,966	3,073	2,957	3,053	3,054	3,170	2,593	2,524	2,350	2,248	2,213	2,139	2,048	2,055	2,033	2,036	2,039	2,055	2,060	2,088	559	74,163

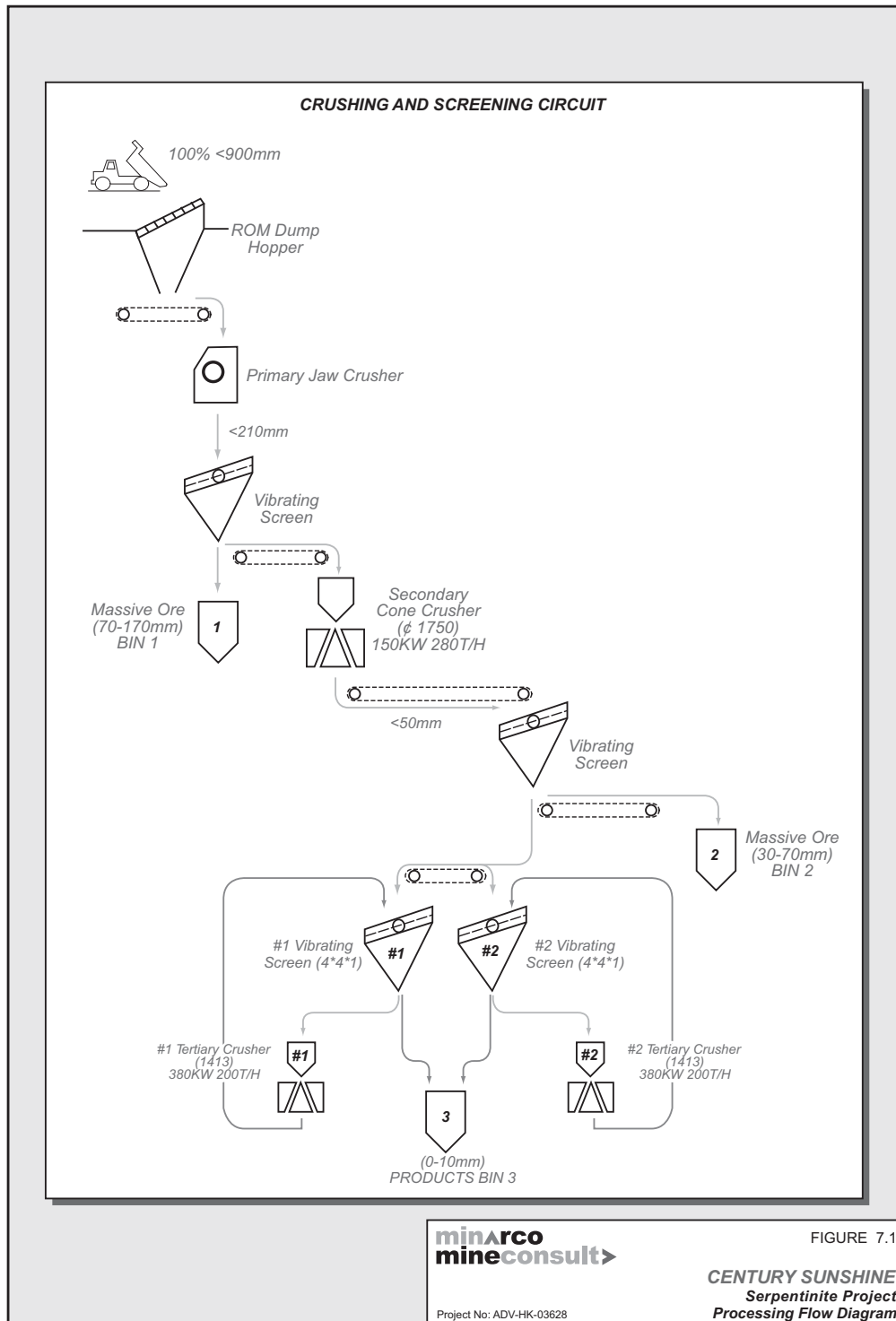
7 METALURGY

7.1 Description

The Mine currently has a crushing facility designed to treat serpentine ore and produce three products with the following size ranges: 70-170mm, 30-70mm and -10mm, as the market dictates. Ore from the mine is dumped into a hopper that feeds the primary jaw crusher. The crushed product is screened on a twin deck vibrating screen to remove oversize (170mm) and recover a 70-170mm fraction which is stored in a bin until dispatched to market.

The screen undersize is fed to a secondary cone crusher to produce material smaller than 50mm. The crushed material is screened on a single deck screen to yield a 30-70mm product which is stored in a bin. The screen undersize (less than 30mm) is split into two equal streams and each stream further screened on a vibrating screen to produce a minus 10mm product. Each screen oversize is fed to a tertiary crusher and the crushed material returned to the vibrating screens for sizing.

Figure 7-1. Donghai Mine - Processing Flow Diagram



7.1.1 Key Processing Equipment

The key processing equipment consists of the crushers and the vibratory screens. The primary crusher is a jaw crusher with an opening 1,200 mm x 900 mm and a 160 kW motor. The manufacturer's rated capacity of this unit is 280tph (Kunming Mining Machine Equipment Manufacturer). The secondary crusher is a 1.75 m diameter cone crusher with a 150kW motor and also rated at 280tph by the manufacturer (Shangai Shibang Machine Co. Ltd.).

Two tertiary cone crushers are installed, some 1,340 mm in diameter and with 380kW motors. Insufficient details were made available about the three sets of screens or concerning the conveyor belts.

7.1.2 Plant Capacity

The crushing plant facility is currently rated at 600 ktpa. Depending upon the actual operating hours, which are currently around 5,200 hours per year, it would appear that the crushing equipment is conservatively sized for this treatment rate on serpentinite ore.

Based on the information available for both the primary and secondary crushers, the manufacturers' rated capacity appears to be correct and the motors suitably sized. Indeed, the secondary cone crusher, assuming a Closed Side Setting (CSS) of 50mm, would appear to have additional capacity, possibly as high as 350tph.

The tertiary crushers appear to be more than adequately sized for the required throughput, although it has been down rated to 180tph from the manufacturer's specification (200tph) and assuming a CSS of 8mm, the motors appear to be suitably sized.

The potential bottlenecks around the plant that may well limit capacity are the vibrating screens and the conveyor belts. Although little information is known about these pieces of equipment, based on the selection of the crushers, it is likely that they have been sized correctly. Whether there is any extra capacity in these pieces of equipment is not known.

A mass balance of the operation was unfortunately not available; however, based on some assumptions as well as the practice in other crushing operations, the following mass balance has been estimated in *Table 7-1*.

Table 7-1. Estimated Mass Balances for the Donghai Serpentinite Crushing Facility

Process Stream	Weight	Mass Flow (tpa)	
	Percent (%)	Case 1	Case 2
Primary Screen			
Feed	100	600,000	3,000,000
+170mm Oversize	5	30,000	150,000
70-110mm Product	15	90,000	450,000
-70mm U/S	80	480,000	2,400,000
Secondary Screen			
Feed		480,000	2,400,000
30-70mm Product	40	192,000	960,000
-30mm U/S	60	288,000	1,440,000
Tertiary Screens			
Feed		480,000	2,400,000
0-10mm Product	60	288,000	1,440,000
+10mm O/S	40	192,000	960,000
Tertiary Crusher			
Feed		192,000	960,000

The fate of the plus 170mm material from the first vibrating screen is not clear; presumably it would be recycled back to the primary crusher.

7.1.3 Processing Plant Upgrade

The proposed upgrade is based on duplicating the existing processing plant, which consists of three stages of crushing and two stages of screening. This expansion will allow the treatment of another 600ktpa of ore and will produce a similar range of closely sized products for sale as flux. In general, the selected equipment appears to have been conservatively sized, allowing for the potential to easily increase production through greater operating hours without any significant capital expense. As an example, the selected cone crusher would be capable of processing between 130 to 350 tph of material (676 to 1,820 ktpa based on 5,200 operating hours per year), depending upon the processing duty.

8 PROJECT DEVELOPMENT

The proposed project development outlined in the feasibility studies plans to increase production to 2mtpa by 2012. The company has provided MMC with an alternative production profile which has a slower increase in production ramp up, achieving 2Mtpa in 2019. This slower production ramp up reportedly takes the broader serpentinite product market into consideration and the expected demand of the products from the mine.

Whether the rapid expansion or the slower expansion to 2Mtpa is exercised, the required project development will be similar. These requirements include:

- updated mining licence to support the development of a larger and deeper pit as well as higher production rates.
- development of supporting site infrastructure,
- design and construction of additional crushing plant,
- purchase of nearby land and payment of additional resource fees and taxes,
- approval of the mine expansion and application if associated environmental and safety appraisals are required.
- pre-stipping of waste material.

The predominant difference between the planned production profiles will be the spread of capital expenditure over the ramp up period. To achieve 2Mtpa by 2012, almost all the planned capital expenditure will likely to be incurred by mid 2012. A slower ramp up of production will result in a more evenly spread capital expenditure over a 5 year period.

9 OPERATING AND CAPITAL COSTS

The operating and capital cost review references historic operating costs, relevant feasibility studies and a mining contract which has been provided to the Company.

Two feasibility studies have been completed for the planned expansion to 2 Mtpa ore production; the Mining Feasibility Study (as discussed in the *Section 6*) and an internal feasibility study completed by JPLC in June 2010. The “Internal Feasibility Study” summarises the planned mining operations and also outlines additional site infrastructure, including additional crushing and infrastructure requirements. Both feasibility studies have been referenced and reviewed in this summary.

9.1.1 Historic Operating Costs

The following unaudited operating costs for 2008 and 2009 were provided by the Company.

Table 9-1 Donghai Mine – Historic Operating Costs (Unaudited)

Description	Unit	2008	2009
Mining Costs	USD/ore tonne	0.95	0.94
Crushing Costs	USD/ore tonne	0.97	0.95
Admin and Overheads	USD/ore tonne	0.13	0.14
Taxes and Royalties	USD/ore tonne	0.51	0.56
Total	USD/ore tonne	2.56	2.59

The following points are relevant to the historic operating costs:

- The mining costs are based on the mining of very low strip ratio ore mined during this period. As such, the unit ore mining costs can essentially be considered a unit per tonne mined cost.
- Administration and overheads appear to be only related to mining administration.
- Taxes do not appear to include VAT.

9.1.2 Feasibility Study Estimates

The Mining Feasibility Study completed for the 2 Mtpa expansion included a life of mine plan and estimated mining costs. MMC considers the estimated operating costs to be a relatively high level estimate with an estimated accuracy of approximately $\pm 30\%$.

Table 9-2 Donghai Mine – Estimated Operating Costs (May 2009 Feasibility Study)

Description	Unit	RMB	USD
Production Costs (Mining and Crushing)	Cost/ore tonne	16.12	2.37
Admin and Overheads	Cost/ore tonne	4.83	0.71
Taxes and Royalties	Cost/ore tonne	13.12	1.93
Total	Cost/ore tonne	34.07	5.01

Note: Applied strip ratio of 0.22 (waste tonnes:ore tonnes)

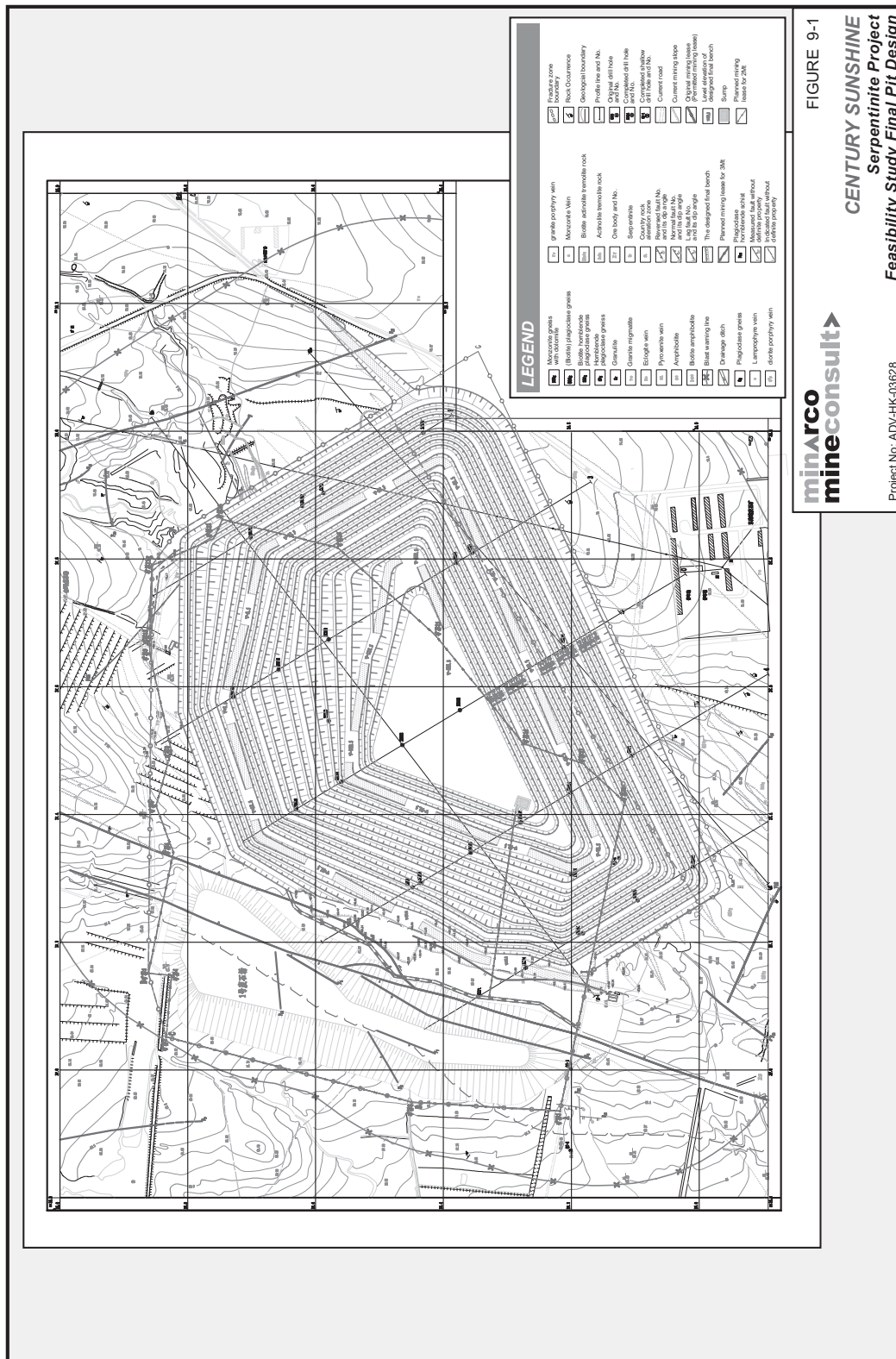
The Mining Feasibility Study's life of mine plan estimates an overall strip ratio (waste tonnes to ore tonnes) of approximately 0.49:1. However, the feasibility study capitalises the cost of mining approximately 14.3 Mt of waste (of a total of 26.4 Mt) in the early years of the mine plan. As a result, the mining operating costs in the feasibility study are based on a strip ratio of 0.22:1.

Based on MMC's review of the pit shells (**Figure 9-1**) and geological models, it is estimated that the pre-strip should be decreased to 10 Mt and the estimated strip ratio for the remainder of the mine life should be 0.17:1. This is a significant reduction to the pre-strip quantities and a small saving to the life of mine applied strip ratio of 0.22:1.

Taxes and Royalties were estimated in the Mining Feasibility Study by applying 17% for output tax, 7% for urban construction tax, 4% education tax and a resource tax of RMB 2/tonne extraction. The output, urban construction and education taxes are applied to the project revenue.

The Administration and Overheads costs appear reasonable for this type of mining operation.

Figure 9-1. Feasibility Study Final Pit Design.



9.1.3 Mining Contractor Costs

MMC has been informed that the Company plans to engage a mining contractor to undertake mining operations including pre-strip, drill & blast and load & haul. The contractor will deliver the ore to the crushing plant. The crushing plant will continue to be operated by the Company.

The schedule of rates estimated by a mining contractor are summarised below.

Table 9-3 Donghai Mine – Estimated Operating Costs (May 2009 Feasibility Study)

Mining Contract	Unit	RMB	USD
Pre strip - Field Preparation	Cost/ore tonne	<u>5.50</u>	<u>0.81</u>
Mining – Loading	Cost/ore tonne	3.98	0.59
Mining - Drill and Blast	Cost/ore tonne	0.73	0.11
Mining - Hauling	Cost/ore tonne	<u>2.17</u>	<u>0.32</u>
Mining – Total	Cost/ore tonne	<u>6.88</u>	<u>1.02</u>

The findings of the mining contract review are:

- The contract states that the mining rates will be fixed for 5 years. There does not appear to be a rise and fall component in the contract.
- Loading, drill and blast and hauling costs are all applied to material which are not included in the pre-strip. These costs will be added together to determine the total unit rates for mining activities not related to pre-strip.
- The field preparation costs appear to be standalone costs for the waste pre-stripping required in the early years of the mining schedule. The field preparation costs are cheaper than the combined loading, drill and blast and hauling costs as the pre-strip material will likely be free-dig (i.e. not requiring blasting) and have shorter haulage distances.
- MMC has been informed that the pre-strip material can be sold for civil engineering uses. During the site visit, MMC viewed waste material being removed from site reportedly for these purposes. The contract enables the contractor to sell this material, with some of the economic benefit reportedly being shared with the Company. This agreement may significantly reduce the overall pre-stripping costs.

- MMC has been informed that the contractor has committed to not charging any additional costs other than those in the schedule of rates. However, MMC considers it likely that there will be some small additional costs, incurred over time, for activities which are required to effectively and safely manage the mine.

9.1.4 Operating Cost Comments

Following a review of the feasibility study, historic costs and the mining contract, the findings of the operating cost review are:

- The mine employs the simple “drill & blast” and “load & haul” mining methods. These methods are commonly applied through the industry and are relatively low cost.
- The mining costs in the early years of the mine life will be relatively low, however, as the mine increases in depth, mining costs will increase. MMC estimates that the unit mining cost may increase by up to double the current rates when mining occurs at the base of the current pit design at the end of the mine life.
- MMC’s estimated strip ratio (taking into consideration capitalised pre-strip waste) is 0.17:1. This represents a small saving to the current applied strip ratio of 0.22:1.
- Support costs such as dewatering and stockpile management etc, have not been clearly addressed in either the mining contract or the feasibility study. This may result in small increases to the operating costs. Some of these activities (such as dewatering) will become more expensive as the pit extends to depth.
- Crushing costs are expected to remain relatively stable over the mine life. There may be some small cost savings associated with increasing the crushing rate to 2 Mtpa.
- MMC has noted the presence of crysotile on site. If crysotile is spread throughout the deposit, the Company may be required to implement more rigorous health and safety procedures. This may increase the operating costs and rehabilitation costs for the operation.
- MMC notes there were no environmental or rehabilitation costs estimated in any of the provided documentation. Due to the minimal waste movement and the lack of any mine tailings this is not considered to be a material issue. However, the cost of managing any remaining crysotile material may result in additional site management costs in the future. This cost incurred will be dependent on how stringent the guidelines are for managing such material.

9.2 Project Capital Costs

The feasibility studies estimated various capital costs such as additional mining equipment, pre-stripping of waste and other project development expenses.

**Table 9-4 Donghai Mine – Estimated Capital Costs
(May 2009 and June 2010 Feasibility Study)**

Combined Feasibility Study	Feasibility Study	k RMB	k USD
Pre-Stripping	Mining	94,707	13,928
Land Usage	Mining	18,438	2,711
Resource Granting	Mining	54,310	7,987
Other Development Fees	Mining	9,094	1,337
Crushing Plant	Internal	22,260	3,274
General Site Layout	Internal	15,150	2,228
Mining Infrastructure	Internal	1,000	147
Total Direct		214,959	31,612

Note: Costs do not include working capital, interest or other indirect costs

As the Company plans to use a mining contractor, no mining equipment costs have been included in the capital cost estimate.

Based on MMC's review of the feasibility studies, the capital estimates have been completed to a scoping study level, which has an estimated accuracy of approximately + 30%.

The capital expenditure schedule is spread over 5 years. Based on the feasibility studies, a significant portion of the capital expenditure occurs in the first two years of the project development. This is predominately related to the pre-stripping of waste material. MMC estimates that over 90% of the capital expenditure is currently planned to occur in the first two years of the mining schedule.

Pre-Stripping

MMC considers the current pre-stripping cost and quantity estimate to be too high. Based on MMC's review of the pit design, the quantity of pre-strip should be reduced from 14 Mt (as stated in the Mining Feasibility Study) to 10 Mt.

Additionally, the Mining Feasibility Study appears to apply a mining rate of RMB 6.6/t pre-strip. Based on the contract rates, it appears that pre-strip mining by the mining contractor will be RMB 5.5/t mined.

The combined changes to the estimated pre-strip mining quantity and cost may result in pre-strip mining costs decreasing from **RMB 95 M (USD 14 M)** to **RMB 55 M (USD 8 M)**. This cost may be further reduced if the contractor sells the waste material (as stated in the mining contract) potentially reducing the pre-stripping costs incurred by the Company.

The capitalisation of pre-strip may be appropriate if the pre-strip is mined in the first two years of the mining schedule. However, as recommended in *Section 6*, the pre-strip would be better managed being mined in a series of cutbacks to create a smoother ore and waste schedule over the mine life. If this were to occur, it may be more appropriate to include the cost of pre-stripping in mining operating costs.

Land Usage and Resource Granting

The Land Usage and Resource Granting costs are incurred due to the required increase in the licence area.

The Land Usage costs relate to the additional land covered by the increased licence area and have been estimated in the Mining Feasibility Study by applying a unit rate of RMB 20 k per Mu (n.b. a Mu unit is equivalent to 666.6m²).

The Resource Granting cost is associated with the additional resources contained within the updated licence area. A unit cost for the Resource Granting has not been defined in the Mining Feasibility Study. However, MMC believes the estimated cost would be an accurate forecast.

Other Development Fees

Other development fees include administration costs, safety and environmental appraisal fees, design costs and preparation fees. These costs are based on estimates for certain items, such as RMB 200 k for safety and environment appraisals, and percentage estimates for other costs, such as design costs (1.5% of construction costs) and preparation costs (5% of construction costs).

Crushing Plant

The crushing plant cost estimate includes a second crushing plant creating a site ore crushing capacity of up to 2 Mtpa. The estimated crushing plant costs appear high and MMC believes they may be reduced if greater utilisation hours for the crushing plants are planned.

General Site Layout

General site layout costs include crushed material handling equipment, such as loaders, truck scales and road vehicles, as well as support equipment such as cranes.

Mining Infrastructure

Mining infrastructure includes the widening of the current haul road and required workshop and storage areas.

10 ENVIRONMENT AND SAFETY

10.1 Safety Issues

In general, health and safety standards in China and other developing countries tend to lag significantly behind developed countries. One key difference is that Chinese mining operations tend not to use personal protective equipment (such as safety boots, hearing protection, dust masks, eye protection and safety vests) as comprehensively as in the more advanced western countries.

MMC considers that the Company is above average by Chinese standards and it does have elements of a documented system in place to address fundamental safety management issues. These management plans and policies are associated with relevant regulatory requirements as well as reflecting the risk management operating context typically found in the domestic mining and processing industries.

10.2 Environmental Issues

The main environmental concern with this type of operation is excessive exposure to dust which may contain asbestos group minerals. Exposure to these minerals may result in a potential of developing asbestosis of the lung which is an incurable form of cancer.

Other environmental issues are briefly discussed as follows:

- **Waste Rock** – waste rock currently produced by the mine is dumped in a waste dump on the surface. Company management have indicated that in the future, the rock will be used for filling voids generated resulting from the mining operation;
- **Dust** – dust is primarily produced as a result of crushing, screening and ore transportation. The Company has in place dust suppression systems involving both dust suppressions sprays as well as mechanical dust collection devices to minimise the nuisance dust. During its site visit MMC noted that a lot of the dust suppression equipment in the processing plant was old and in disrepair resulting in excessive dust being generated. As mentioned in the Report chrysotile has been identified by MMC during its site visit. This may present a significant long term health risk to site personnel. In MMC's opinion a detailed study and management plan of this health risk is required to minimise potential harm to current employees and associated industries.

- **Noise** – Noise generated by the open cut is minimal with blasting occurring only once a week. Noise generated by the processing plant was MMC's experience within the norms of other similar style operations in china.
- **Waste Water** – Waste water is discharged into a local stream which runs adjacent to the mining lease. The stream is said to be monitored before it leaves the property and MMC consider it to be a low risk considering the local environment.

11 RISKS, OPPORTUNITIES AND CRITICAL ISSUES

11.1 Risk Summary

Mining is a relatively high risk business when compared to other industrial and commercial operations. Each deposit has unique quality characteristics and response to mining and processing operations which can never be wholly predicted. MMC's review of the Assets indicate project risk profiles typical of mining projects at similar levels of resource estimation, mine planning and project development. During its review, MMC did not discover any critical or "fatal" project flaws.

MMC has classified Risks for the Serpentine Mine based on the general mining industry definition such as those listed below. MMC notes that in most instances it is likely that through provision of further documentation and additional technical studies these risks may be mitigated.

H – High Risk: This implies that there are key project parameters as presented in the current documentation, which if uncorrected, will have a material effect (for example >15 %) on the project cash flow and performance.

S – Significant Risk: This implies that there is a danger of failure of a critical project parameter as presented in the current documentation, which if uncorrected, may have a material effect (for example 10 to 15 %) on the project cash flow and performance unless mitigated by some corrective action.

M – Moderate Risk: Implies a summation of factors, which if uncorrected, could have a significant effect (>10 %) on the project cash flow and performance unless mitigated by some corrective action.

L – Low Risk: Implies that if some factors are uncorrected, they will have little or no effect on project production rates or project economic performance.

Table 11-1 - Project Risk Summary

Risk Ranking	Risk Description and Suggested Further Review	Mitigant	Area of Impact
S	Demand for Product: Based on marketing studies provided there appears to be limited demand for the products	Ongoing market analysis	All
M	Process Plant Operating Conditions: The general operating conditions for both plants with regard to dust, access and safety.	The management of the operational health and safety issues needs to be improved.	All Processing Plants.
M	Fluctuation of product grade: Mining class 1 and class 2 as a flux product.	Complete detailed mine plan to stabilise the feed grade.	
M	Cannot sell Waste Product as currently Planned: Need to stockpile excess waste onsite. This will require acquisition of additional land and licences.		Land and licence area, acquisition costs
L	Chrysotile Mineral on site: The asbestos mineral chrysotile mineral has been identified on site and may be require to implement stringent health and safety procedures.	Careful monitoring of air composition.	All
L	Managing Chrysotile waste: If chrysotile is widespread in the waste area, the cost of managing the material could be significant.	Ongoing studies	Operating costs
L	Grade Variability: The Inferred and Indicated portion of the deposit is based on limited drill holes, and as result the grade continuity has not been confirmed.	The controls on mineralisation are well understood and excellent geological controls have been used to estimate the grades in these areas.	Inferred and Indicated Mineral Resources.

Risk Ranking	Risk Description and Suggested Further Review	Mitigant	Area of Impact
L	Up to date 3D survey of open pit: 3D survey of the open pit has been provided. The survey used in the model was completed in December 2009.	Complete regular surveys of the mined portion, MMC has depleted the estimate with the production for the year to date	The area that has been mined this year
L	Age of the Drilling: All drilling was completed in the 1970's and 80's. Potential for unrepresentative assays, and data entry issues due to hard copy.	MMC completed exhaustive review of all available QAQC and hardcopy datasets. Grade in the current production are similar to those in the drill holes.	All
L	Granting of expanded mining license: The mining license has not been granted for the expanded license area.	Ongoing discussion with government	Resource in expanded license.

11.2 Opportunity Summary

MMC has identified various opportunities which warrant further investigation, these include:

- Decrease the capital cost by selling the waste and thereby decrease the associated costs.
- Reducing capital costs of the crusher by increasing utilising rates
- The capital cost of the plant upgrade, assuming that it is based on Chinese equipment, is considered high. Reducing capital costs of the crushing plant upgrade through use of existing pieces of equipment, such as the crushers, would lead to a reduction of up to 15 to 20% in the proposed feasibility capital costs.
- Completion of detailed mine planning to create a balance ore/waste production profile in the early years of the schedule.
- Take a more clearly staged development approach to minimise capital expenditure such as land purchase, licence granting to evenly spread the costs over a longer period of time.

12 ANNEXURE A – QUALIFICATIONS AND EXPERIENCE

Andrew Ryan – Runge Asia Limited – General Manager North Asia - Bachelor of Engineering, Mining – University of New South Wales, Master of Applied Finance and Investment (Finsia) – Member of Australasian Institute of Mining and Metallurgy - Associate of Financial Services Institute of Australasia

Andrew has worked with MMC over the past seven years and has been actively involved in all areas of mining consulting. Most recently, in 2009, Andrew has relocated to Hong Kong to establish Runge Asia Limited's new office. Prior to this Andrew was in Beijing as MMC's Chinese Business Manager responsible for the establishment and growth of MMC's China business. During this time Andrew was involved with and/or project managed numerous mining related assignments in North Asia. This work has included the project management of due diligence studies, valuation reports, opportunity assessments, conceptual development studies, and feasibility assessments for both domestic and international clients. The projects that these studies have focused on have covered a variety of minerals including coal, iron ore, copper, nickel, gold and molybdenum. Andrew has also had significant experience with due diligences for capital raisings and IPO related projects. Andrew has travelled to and worked on mining projects in Australia, China, Mongolia, Russia, the Ukraine, the Democratic Republic of the Congo, and Papua New Guinea.

Philippe Baudry – General Manager – China and Mongolia, Bsc. Mineral Exploration and Mining Geology, Assoc Dip Geo science, Grad Cert Geostatistics, MAIG

Philippe is a geologist with over 14 years of experience. He has worked as a consultant geologist for over 6 years first with Resource Evaluations and subsequently with Runge after they acquired the ResEval group in 2008. During this time Philippe has worked extensively in Russia assisting with the development of two large scale copper porphyry projects from exploration to feasibility level, as well as carrying out due diligence studies on metalliferous projects throughout Russia. His work in Australia has included resource estimates for BHPB, St Barbara Mines and many other clients both in Australia and overseas on most styles of mineralisation and metals. Philippe furthered his modelling and geostatistic skills in 2008 by completing a Post Graduate Certificate in Geostatistics at Edith Cowan University. Philippe relocated to China in 2008 and has since project managed numerous Due Diligences and Independent Technical Reviews for private acquisitions and IPO listings purpose mostly in China and Mongolia.

Prior to working as a consultant Philippe spent 7 years working in the Western Australian Goldfields in various positions from mine geologist in a large scale open cut gold mine through to Senior Underground Geologist. Before this time Philippe worked as a contractor on early stage gold and metal exploration projects in central and northern Australia.

With relevant experience in a wide range of commodity and deposit types, Philippe meets the requirements for Qualified Person for 43-101 reporting, and Competent Person (“CP”) for JORC reporting for most metalliferous Mineral Resources. Philippe is a member of the Australian Institute of Geoscientists.

Dan Peel – Operations Manager – Beijing, Bachelor of Engineering, Mining – University of New South Wales, Unrestricted Quarry Manager (WA), Grad. Cert. Applied Finance - Kaplan, Diploma (Bus), Member of Australasian Institute of Mining and Metallurgy

Dan has worked as a mining engineering consultant with MMC for three years. Since joining MMC, Dan has completed a range of projects including technical valuations, life-of-mine designs and scheduling, pit optimisation, development of economic models, mine reserves estimation and reporting.

Prior to joining MMC, Dan worked with an open cut mining contracting firm for five years where he gained significant open cut metal mining experience. During this period, Dan developed operational, engineering and project management expertise. Dan’s roles included Quarry Manager of the BHPB Jimblebar iron ore mine and Quarry Manager/Mining Superintendent of the Mt Gibson Koolan Island iron ore mine. Dan also worked at the Plutonic and Cuddingwarra gold mines and the Wodgina tantalum mine.

With relevant experience in a wide range of commodity and deposit types, Dan meets the requirements for Qualified Person for 43-101 reporting, and Competent Person (“CP”) for JORC reporting for both metalliferous and coal open cut Reserves. Dan is a member of the Australian Institute of Mining and Metallurgy.

Jeremy Clark – Senior Consultant Geologist – Beijing, Bsc. with Honours in Applied Geology, Grad Cert Geostatistics, MAIG

Jeremy has over 9 years of experience working in the mining industry. During this time he has been responsible for the planning, implementation and supervision of various exploration programs, open pit and underground production duties, detailed structural and geological mapping and logging and a wide range of experience in resource estimation techniques. Jeremy’s wide range of experience within various mining operations in Australia and recent experience working in South and North America gives him an excellent practical and theoretical basis for resource estimation of various metalliferous deposits including iron ore and extensive experience in reporting resource under the recommendations of the NI-43-101 reporting code.

With relevant experience in a wide range of commodity and deposit types, Jeremy meets the requirements for Qualified Person for 43-101 reporting, and Competent Person (“CP”) for JORC reporting for most metalliferous Mineral Resources. Jeremy is a member of the Australian Institute of Geoscientists.

Zhao Hong, MEng, Senior Geologist Consultant - Beijing, Minarco-Mineconsult, Member of Australasian Institute of Mining and Metallurgy

Zhao Hong is also a registered qualified valuator of mineral rights in China. He graduated with a bachelor degree in coal geology and exploration from Huai Nan University of Mining and Technology in 1985 and was granted a masters degree from Beijing Graduate School, China University of Mining and Technology with a specialty in coal geology in 1990. Mr Zhao has been engaged in coal mining geology at the Fengfeng Coal Mining Bureau and Beijing Coal Mining Bureau. And he did some scientific study on coal strata and environment in the Chinese Academy of Sciences and co-operated with foreign scholars for many years. From 2003 to now, he has been working as a geologist and mining consultant performed more than 60 projects in China and international mining consulting companies.

With relevant experience in coal geology, Zhao Hong meets the requirements for Qualified Person for 43-101 reporting, and Competent Person (“CP”) for JORC reporting for coal Resources. Zhao Hong is a member of the Australian Institute of Mining and Metallurgy.

Andrew Newell - BE, MEngSc, University of Melbourne, PhD, University of Cape Town. Member of the SME, CIMM, AusIMM & IEA as well as a Chartered Professional Engineer, Australasia

Over 30 years of broad experience in the fields of minerals processing, hydrometallurgy, plant design, process engineering (including equipment selection and design) and metallurgical testwork. Andrew has worked on five iron ore projects, one involving flotation, and is knowledgeable about iron ore processing techniques such as magnetic separation. The experience includes operating and management experience in base-metal concentrators, precious metal leaching facilities as well as diamond processing and base-metal smelting in several countries, including Chile, Peru, South Africa, USA and Australia. Responsible for the design of flotation equipment, concentrators and commissioning of flotation and precious metals leach plants. In addition, Andrew has had experience in process and process plant evaluations, due diligence audits, feasibility studies and metallurgical testwork and program development.

Wenqi Zhang – Project officer/Geologist, Master of Geology, Peking University, China

Wenqi has graduated from the Peking University with a masters degree in geology in 2007. He did mineral research with the university prior to joining Runge over 2 years ago. During his time working for Runge Wenqi has been involved with numerous project reviews from exploration to operating assets both for metals and coal. Recent commodities covered by Wenqi in China have included gold, iron, molybdenum, phosphate, serpentine and coal. Through his technical work Wenqi has gained a solid understanding of exploration data management and requirements to meet the recommendations of the JORC Code.

Jim Jiang- Minarco-Mineconsult Analyst, Bachelor and Master of Mineral Processing Engineering

Jim's technical background is mineral engineering with laboratory research experience. He has one and a half years of mine-site experience in China, working with China Gold Group Corporation. Since joining MMC in 2007, has been actively involved in many technical review projects, his working including analysing and reviewing processing plants design and performance and collecting technical data. He also has experience in collecting and analysing geological data, to assist senior geologists in their review work.

Company's Relevant Experience

Minarco-MineConsult, part of Runge Limited, is a premier international consulting and engineering firm. It provides a full range of services from pure technical consulting through to strategic corporate advice. And undertake assignments on mining projects covering a range of commodities and countries, serving clients in most of the countries around the West Pacific Rim region.

Minarco-MineConsult maintains a full time staff of qualified specialists in the fields of mining engineering, geology, process and metallurgical engineering, environmental and geotechnical engineering, and environmental economics.

Minarco-MineConsult typically completes over 200 assignments per year and has over 300 professionals (through its parent Runge Group) available in disciplines including:

- Mining Engineering;
- Minerals Processing;
- Coal Handling and Preparation;
- Power Generation;
- Environmental Management;
- Geology;
- Contracts Management;
- Project Management;
- Finance;
- Commercial Negotiations.

The roots of Minarco-MineConsult were established in the Australian mining industry. Minarco-MineConsult is committed to compliance with the codes which regulate Australian corporations and consultants and has established an International business which has continued to give its clients and those that rely on its work the confidence that can be associated by the use of the relevant Australian codes.

These codes include:

- The Australian Corporation Law;
- The Australian Institute of Company Directors Code of Conduct;
- The Securities Institute of Australia Code of Ethics;
- The Australasian Institute of Mining and Metallurgy Code of Ethics;
- The Australasian Code for Reporting of Exploration Results, Mined Resources and Ore Reserves (The JORC Code).

Minarco-MineConsult has conducted numerous mining technical due diligence programs and reporting for IPO's and capital raisings over the past six years, with involvement in projects raising a total of over \$US 10 billion of capital. This and other work is summarised in *Table A1*.

Table A1 - Mining Related IPO and Capital Raising Due Diligence Experience

2010 Doxen Energy Group Limited; Independent Technical Review for inclusion in a HKSE Circular to support a mining asset purchase by a listed Hong Kong Company.

2010 Kwong Hing International Holdings (Bermuda) Limited; Independent Technical Review for inclusion in a HKSE Circular to support a Very Substantial Acquisition.

2009 Metallurgical Corporation Of China Ltd ("MCC"); Independent Technical Review for inclusion in a Prospectus to support a stock exchange listing on the Hong Kong Stock Exchange.

2009 Nubrand Group Holdings Limited, Guyi Coal Mine; Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2008 China Blue Chemical Limited, Wangji and Dayukou Phosphate Mines; Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2008 Kenfair International (Holdings) Limited, Shengping Coal Mine; Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Railway Company Limited, African Copper/Cobalt Assets: Capital raising for mining assets on the Hong Kong Stock Exchange. Preparation of CPR for planned IPO on the HKSE.

2007 Ko Yo Ecological Agrotech (Group) Limited Sichuan Phosphate: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 Prosperity International Holdings Limited, Guilin Granite Project: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Primary Resources - Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by China Primary Resources.

2008 Kenfair International (Holdings) Limited, Shengping Coal Mine: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Railway Company Limited, African Copper/Cobalt Assets: Capital raising for mining assets on the Hong Kong Stock Exchange. Preparation of CPR for planned IPO on the HKSE.

2007 Gloucester Coal Limited – Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2007 Confidential Hong Kong Private Equity Partners – Independent Technical Review to support private equity capital raising to purchase lead/zinc mining assets in Tibet.

2007 Confidential International Investor – Independent Technical Review to support private equity capital raising to purchase iron ore assets in Hubei. Preparation of ITR.

2007 Whitehaven Coal Limited – Independent Technical Review for Australian Stock Exchange IPO.

2007 Confidential Privately Owned Coke Producer – Capital raising for purchase of Coal Mines and downstream coal washing, coke production and chemical production facilities. Preparation of CPR for planned IPO on the HKSE.

2007 China Molybdenum Group– Capital raising for large scale Molybdenum mine on the Hong Kong Stock Exchange. Preparation of CPR for IPO on the HKSE.

2007 Confidential International Investor – Independent Technical Review to support purchase of Gold Mine In Hubei Province.

2006 Excel Mining – Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2006 Celadon Mining Investment Group (UK) – Capital raising for coal mine purchase in China and planned subsequent listing on AIM

2005 Yanzhou Coal Mining Company Limited – Independent Technical Review of coal projects to satisfy ongoing listing requirements of the HKSE and NYSE following IPO.

2004 Excel Mining – Independent Technical Review for Australian Stock Exchange IPO (current market capitalisation over \$US1billion)

2004 Excel Mining – Independent Market Review for Australian Stock Exchange IPO

2003 New Hope – Independent Market Review for Australian Stock Exchange IPO

2003 Confidential – Independent Market Review on 50 Mtpa operation in Kazakhstan for LSE listing (has not proceeded)

2003 Xstrata plc – Competent Person’s Report for London Stock Exchange Chapter 19 Report for Acquisition of MIM Assets including mines, rail and port review (\$US 2.5 billion)

2002 Xstrata plc – Competent Person’s Report for London Stock Exchange IPO (\$US2.3 billion)

2002 Kaltim Prima, Indonesia – Independent Technical Review for advising project financiers to acquisition (\$US445 million)

2001 Enx Resources - Independent Technical Review for Australian Stock Exchange IPO

2001 Macarthur Coal Limited – Independent Technical Report and Market Review for Australian Stock Exchange IPO

13 ANNEXURE B – GLOSSARY OF TERMS

The key terms used in this report include:

- | | |
|------------------------|---|
| • assets | means the Title to Mineral Resources and associated mining and processing plant and equipment. |
| • AUD | Australian dollar |
| • cog/cut off grade | the lowest grade, or quality, of mineralised material that qualifies as economically mineable and available in a given deposit. May be defined on the basis of economic evaluation, or on physical or chemical attributes that define an acceptable product specification |

APPENDIX IV TECHNICAL REPORT ON THE SERPENTINE MINE

- concentrate

a powdery product containing higher concentrations of minerals resulting from initial processing of mined ore to remove some waste materials; a concentrate is a semi-finished product, which would still be subject to further processing, such as smelting, to effect recovery of metal
- contained metal

refers to the amount of pure metal equivalent estimated to be contained in the material based on the metal grade of the material.
- element

Chemical symbols used in this report Mgo – Magnesium Oxide Al_2O_3 - Aluminium Oxide CaO – Calcium Oxide
- exploration

activity to identify the location, volume and quality of a mineral occurrence
- Exploration Potential

Mineralised area for which the quantity and quality of the sampling information is insufficient to determine Mineral Resources but for which a conceptual assumption of the potential quantity and grade of mineralisation can be made. This potential quantity needs to be confirmed through further sampling and cannot be reported as a Mineral Resource.
- Exploration Target/Results

includes data and information generated by exploration programmes that may be of use to investors. The reporting of such information is common in the early stages of exploration and is usually based on limited surface chip sampling, geochemical and geophysical surveys. Discussion of target size and type must be expressed so that it cannot be misrepresented as an estimate of Mineral Resources or Ore Reserves.
- exploration right

the licenced right to identify the location, volume and quality of a mineral occurrence
- flotation

is a separation method for to the recovery of minerals using reagents to create a froth that collects target minerals
- gangue

is a mining term for waste rock

- grade

any physical or chemical measurement of the concentration of the material of interest in samples or product. The units of measurement should be stated when s are reported
- grind

means to crush, pulverize, or reduce to powder by friction, especially by rubbing between two hard surfaces
- HKEX

stands for Hong Kong Stock Exchange
- In situ

means rock or mineralisation in place in the ground
- In Situ Quantities

Estimates of total in ground tonnes and grade which meet the requirements of the PRC Code or other international codes for reserves but do not meet either NI 43-101 or Joint Ore Reserves Committee’s recommendations
- Indicated Mineral Resource

is that part of a JORC compliant Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable 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. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
- Inferred Mineral Resource

is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade 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 grade 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

stands for Independent Technical Review
- ITRR

stands for Independent Technical Review Report

APPENDIX IV TECHNICAL REPORT ON THE SERPENTINE MINE

- | | |
|-----------------------------|--|
| • JORC | stands for Joint Ore Reserves Committee |
| • JORC Code | The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves published in 2004 by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia. It set out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. |
| • km | stands for kilometre |
| • kt | stands for thousand tonnes |
| • m | stands for metres |
| • Measured Mineral Resource | is that part of a JORC compliant Mineral Resource for which tonnage, densities, shape, physical characteristics, grade 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. The locations are spaced closely enough to confirm geological and grade continuity. |
| • metallurgy | Physical and/or chemical separation of constituents of interest from a larger mass of material. Methods employed to prepare a final marketable product from material as mined. Examples include screening, flotation, magnetic separation, leaching, washing, roasting etc. |
| • mine production | is the total raw production from any particular mine |
| • Mineable Quantities | Estimates of in ground tonnes and grades which are recoverable by mining |
| • mineral right | for purposes of this Prospectus, mineral right includes exploration right, mining right, and leasehold exploration or mining right |

- mineralisation

any single mineral or combination of minerals occurring in a mass, or deposit, of economic interest. The term is intended to cover all forms in which mineralisation might occur, whether by class of deposit, mode of occurrence, genesis or composition
- mining rights

means the rights to mine mineral resources and obtain mineral products in areas where mining activities are licenced
- MMC

refers to Minarco-MineConsult
- mRL

means meters above sea level
- Mt

stands for million tonnes
- Mtpa

means million tonnes per annum
- OC

Means open cut mining which is mining from a pit open to surface and usually carried out by stripping of overburden materials
- ore

is the portion of a reserve from which a metal or valuable mineral can be extracted profitably under current or immediately foreseeable economic conditions
- ore processing

is the process through which physical or chemical properties, such as density, surface reactivity, magnetism and colour, are utilized to separate and capture the useful components of ore, which are then concentrated or purified by means of flotation, magnetic selection, electric selection, physical selection, chemical selection, reselection, and combined methods
- ore selection

the process used during mining to separate valuable ore from waste material or barren rock residue
- ore t

stands for ore tonne
- primary mineral deposits

are mineral deposits formed directly from magmas or hydrothermal processes

- Probable Ore Reserve

is the economically mineable part of a JORC compliant Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and 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. A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but has adequate reliability as the basis of mining studies.
- project

means a deposit which is in the pre-operating phase of development and, subject to capital investment, feasibility investigations, statutory and management approvals and business considerations, may be commissioned as a mine
- Proved Ore Reserve

is the economically mineable part of a JORC compliant Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and 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. A Proved Ore Reserve represents the highest confidence category of Ore Reserve estimates. This requires detailed exploration and high quality data to provide a high level of geological confidence.
- raw ore

is ore that has been mined and crushed in an in-pit crusher, but has not been processed further
- recovery

The percentage of material of initial interest that is extracted during mining and/or processing. A measure of mining or processing efficiency

APPENDIX IV TECHNICAL REPORT ON THE SERPENTINE MINE

- reserves the economically mineable part of a Measured and/or Indicated Mineral Resource, including diluting materials and allowances for losses which may occur when the material is mined

- Ore Reserves reserves which have been estimated in accordance with the recommendations of the JORC Code

- resources a concentration or occurrence of a material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity such that there are reasonable prospects for eventual economic extraction

- Mineral Resources Resources which have been estimated in accordance with the recommendations of the JORC Code

- RL means Reduced Level, an elevation above sea level

- RMB stands for Chinese Renminbi Currency Unit;

- RMB/t stands for Chinese Renminbi per material tonne

- ROM stands for run-of-mine, being material as mined before beneficiation

- secondary mineral deposits are mineral deposits formed or modified as a result of weathering or erosion of primary mineral deposits

- shaft a vertical excavation from the surface to provide access to the underground mine workings

- t stands for tonne

- t/bcm stands for tonnes per bank cubic metre (i.e. tonnes in situ) a unit of density

- tonnage an expression of the amount of material of interest irrespective of the units of measurement (which should be stated when s are reported)

- tonne refers to metric tonne

- tpa stands for tonnes per annum

- tpd stands for tonnes per day

- troy ounce a unit of weight equal to 31.1034768 grams

- UG means underground mining which is an opening in the earth accessed via shafts, declines or adits below the land surface to extract minerals

- upgrade ratio is a processing factor meaning ROM Grade% / Product Grade %

- USD stands for United States dollars

- \$ refers to United States dollar currency Unit

- AUD refers to Australian dollar currency Unit

- ¥ is the symbol for the Chinese Renminbi Currency Unit

Note: Where the terms Competent Person, Inferred Resources and Measured and Indicated Resources are used in this report, they have the same meaning as in the JORC Code.

14 ANNEXURE C – CHINESE RESOURCE REPORTING STANDARDS

Chinese Resource Reporting Standards

In 1999, with a view to creating a standard that was comparable with international resource reporting standards, The Chinese National Land and Resource Department introduced its own national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999).

This code was to replace the previous code (China GB 13908-1992 - General rules for Geological Exploration of Solid Ore Resources) and was based upon the United Nations international code (UN Economic and Society Committee, UN document ENERGY/WP.1/R.70). Some elements of the American resource reporting standards were included and modifications made to suit Chinese conditions. All new resource estimates are reported under this new code and old estimates either re-estimated or converted to the new system.

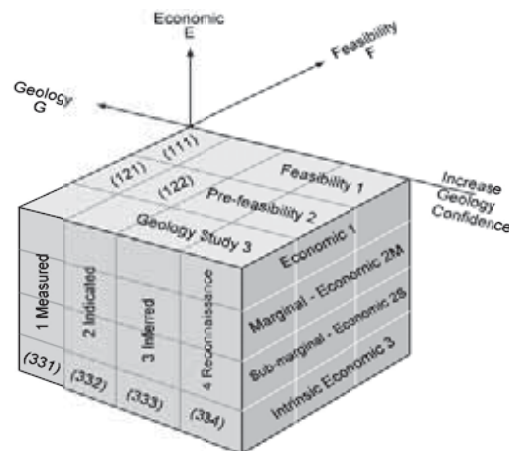
The previous Chinese standard (GB 13908-1992) divided resources into four categories (A, B, C and D) which were loosely comparable to the JORC – (December 2004) classifications of Measured Resource (A-B), Indicated Resource (B-C) and Inferred Resource (D). The old standard was more prescriptive than JORC in that it specified minimum borehole spacings (see Table C1) for each category, along with implied levels of geological understanding.

Table C1 - Borehole Spacing Comparison (Chinese, UN and JORC Codes)

(Chinese Reserve Code)	Classification (Chinese Reserve Class)	UN Code	JORC (Dec 2004)	Minimum Borehole / Drill Line Spacing
A	111 – 121	15	Measured	<100 m
B	121 – 122	331	Measured	<=100 m x 100 m
C	122 – 2 m22	332	Indicated	<=200 m x 100 m
D	122	333	Inferred	>200 m

The old code was essentially a geological classification, taking little account of the deposits economics or the level of mining studies that had been carried out on it. The new code (see *Figure C1*) attempts to address this by using a three component system (EFG) that considers the deposit economics (E), the level of mining feasibility studies that have been carried out (F) and the level of geological confidence (G) using a numerical ranking.

Figure C1 - New Chinese Resource/Reserve Classification Matrix (1999)



This system produces a three digit code for a deposit that reflects these three variables. For example a deposit classified as a 121 is economically viable (1), has had pre-feasibility studies carried out (2) and is well understood geologically (1). Various suffixes are used to distinguish Basic Reserves - essentially JORC Resources - (121b) from Extractable Reserves (121) and to identify the assumed economic viability (S or M). Certain categories are not allowed, for example pre-feasibility or feasibility level studies cannot be conducted on Inferred Resources, and so 123 and 113 are invalid classifications. Also Extractable Reserves are not estimated for marginally economic (or lesser) deposits so the (b) suffix is considered redundant. The term Intrinsically Economic indicates that while the deposit may be economic, insufficient studies have been carried out to clearly determine its status.

A tabulation of this concept is shown in *Table C2*.

Table C2 - New Chinese Resource/Reserve Categories (1999)

Economic Viability	Geological Confidence			Undiscovered Resource
	Identified Mineral Resource			
	<i>Measured (1)</i>	<i>Indicated (2)</i>	<i>Inferred (3)</i>	<i>Reconnaissance (4)</i>
Economic (1)	Basic Reserve <i>Resource - 111b</i>	16	17	18
	Proved Extractable Reserve - 111	19	20	21
	Basic Reserve <i>Resource 121b</i>	Basic Reserve <i>Resource -122b</i>	22	23
	Probable Extractable Reserve - 121	Probable Extractable Reserve -122	24	25
Marginally Economic (2 m)	Resource 2 m11 Resource 2 m21	26 27 Resource 2 m22	28 30	29 31
Sub-marginally Economic (2S)	Resource 2S11 Resource 2S21	32 33 Resource 2S22	34 36	35 37
Intrinsically Economic (3)	Resource 331	Resource 332	Resource 333	Resource 334

Note: First digit reflects Economic viability; 1= Economic; 2 m=Marginally Economic; 2S= Sub-marginally Economic; 3=Intrinsically Economic; 4=Economic interest undefined.
Second digit reflects Feasibility assessment stage, 1=Feasibility; 2=Pre-feasibility; 3=Geological study.
Third digit reflects Geological assurance, 1=Measured, 2=Indicated, 3=Inferred, 4=Reconnaissance.
b=Basic Reserve (prior to recovery factors, mining losses and dilution) – JORC Resource.

Unlike the old code, the new code does not specify required borehole spacings for each category. In the case of copper Cobalt and Gold (and other metals), there is an accompanying Chinese Professional Standard (DZ/T 0214-2002) that lays out rules for determining the level of geological confidence.

International Standards and the JORC Code for Resources

Two main styles of resource reporting codes exist internationally. These are the American style (USA and much of South America) and the JORC style (Australia, South Africa, Canada, and UK). This is further complicated by the listing and reporting requirements of different stock exchanges. It is generally true that a resource estimation that complies with the JORC code (or one of its sister codes) will meet the standards of most international investors.

The new Chinese code is a blend of the old Chinese Code and the codes in current use today, including JORC and the current United Nations (UN) standard, with some additional local components added.

JORC is a non-prescriptive code, in that it does not lay out specific limits for resource classification in terms of such things as borehole spacing. Instead it emphasises the principles of transparency, materiality and the role of the Competent Person. Whilst some guidelines do exist (e.g. the Australian Guidelines for the Estimation of Coal Resources and Reserves) they are not mandatory and classification is left in the hands of the Competent Person. When combined with its Professional Standards (which are effectively mandatory), the Chinese code is much more prescriptive but does not include the role of the Competent Person.

An examination of the details of the Chinese code suggests that in terms of broad categorisation, the levels of geological confidence ascribed to Measured and Indicated resources are quite similar in both the codes. The ranges of borehole spacings, thickness cut-offs and quality limitations that are enforced by the Chinese system would generally result in the same resource classification under the JORC Code.

The JORC Code uses the following definitions for Mineral Resources and Ore Reserves:

Measured Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade 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. The locations are spaced closely enough to confirm geological and grade continuity.

Indicated Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a **reasonable** 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. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade 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 grade 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.

Exploration Target/Results includes data and information generated by exploration programmes that may be of use to investors. The reporting of such information is common in the **early** stages of exploration and is usually based on limited surface chip sampling, geochemical and geophysical surveys. Discussion of target size and type must be expressed so that it cannot be misrepresented as an estimate of Mineral Resources or Ore Reserves.

A '**Proved Ore Reserve**' is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when

the material is mined. Appropriate assessments and 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

A Proved Ore Reserve represents the highest confidence category of Ore Reserve estimates. This requires detailed exploration and quality data “points of observation” to provide high geological confidence.

A ‘**Probable Ore Reserve**’ is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistic ally 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.

A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but has adequate reliability as the basis of mining studies.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

The following is the text of a letter prepared for the purpose of incorporation in this circular received from Greater China Appraisals Limited, an independent valuer, in connection with its valuation as at 31 August 2010 of the market value of a 100% equity interest in the Serpentine Mine



GREATER CHINA APPRAISAL LIMITED

漢華評值有限公司

25 September 2010

Board of Directors
Century Sunshine Group Holdings Limited
Unit 3907
COSCO Tower
183 Queen's Road Central
Hong Kong

Dear Sirs/Madams,

In accordance with the instructions from Century Sunshine Group Holdings Limited (the "Company"), we have completed a valuation of the fair market value of the Mineral Assets of Jiangsu Longteng Petrochemical Company Limited ("Jiangsu Longteng"), which consist of the mining right and the planned expansion areas of the Donghai Serpentine Mine (the "Mineral Assets"), as of 31 August 2010 (the "Valuation Date").

It is our understanding that our analysis will be used by management of the Company solely as a reference for investment purpose. We confirm that we have made relevant enquiries and obtained such information as we consider necessary for the purpose of providing our opinion of the fair market value of Mineral Assets as at the Valuation Date. Our work was performed subject to the assumptions and limiting conditions described in the Appendices of this report.

The valuation report presents the data, assumptions, and methodologies employed in developing our recommended estimate. Our report and analysis are in conformance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, 2005 Edition (the "VALMIN Code"), prepared by the VALMIN Committee. The VALMIN Code provides a set of fundamental principles and supporting recommendations regarding good professional practice to assist the preparation of the valuation of Mineral Assets.

We understand that this valuation will be used as a reference for your investment purpose, details of which are set out in the circular dated 25 September 2010 issued by the Company to the Shareholders (the "Circular"), of which this valuation report forms part. Unless otherwise stated, terms used in this valuation report have the same meanings as those defined in the Circular. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes. The standard of value is fair market value; whilst the premise of value is value in use, as part of going concern.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

PURPOSE OF ENGAGEMENT

As aforementioned, the purpose of this particular engagement is to assist the management of the Company in determining the fair market value of the Mineral Assets as of the Valuation Date for investment purpose in accordance with the VALMIN Code.

According to the VALMIN Code, the Fair Market Value of a Mineral Asset is defined as:

“the amount of money (or the cash equivalent of some other consideration) determined by in accordance with the provisions of the VALMIN Code for which the Mineral Asset should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an “arm’s length” transaction, with each party acting knowledgeably, prudently and without compulsion”.

The premise of value is Going Concern, defined as:

“an ongoing and operating business enterprise”.

Going Concern value is defined as:

“the value of a business enterprise that is expected to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained workforce, an operational plant, and the necessary licenses, systems, and procedures in place”.

PRINCIPAL SOURCES OF INFORMATION

In completing this valuation, we have relied heavily on the Independent Technical Review Report – Donghai Serpentine Mine conducted by Minarco-MineConsult dated 25 September 2010 (the “Technical Report”), a market research report on Serpentine in China prepared by Freedonia Custom Research, Inc. published in 2010 (the “Market Research Rerpot”), a feasibility study compiled by the Suzhou Sinoma Non Ferrous Metal Industrial Design Co Ltd in October 2008 (the “Feasibility Study”) and other information, sourced by technical experts and/or other accredited specialist(s) specific to the mining industry, provided by the Company and its management.

We have also relied upon publicly available information from sources on capital markets, including industry reports, and various databases of publicly traded companies and news.

MINERAL ASSETS OVERVIEW

Donghai Serpentine Mine

According to the Technical Report, the Donghai Serpentine Mine consists of three serpentinite orebodies which are primarily used as flux in steel smelting. It is located 29km to the northwest of Donghai County, Jiangsu Province, China and its coordinate is E118° 29'~118°31', N34°36'~34°38'.

Mining Method

The mine currently uses open cut mining method to extract the serpentinite ore. The ore is then transported to the processing plant and dumped directly into crushing machine for re-handling. At present, the licensed mining rate is 0.3Mtpa, however, it is planned to increase serpentinite production.

According to the management of the Company and the Technical Report, the Company will be outsourcing its mining operation and will utilize local contract mining companies for overburden stripping, loading, and blasting. Ownership of all major equipment in the earthmoving fleet is transferred to the contractors.

Estimated Resources and Quality

According to the Technical Report, the estimated resources for the Mineral Assets, is outlined in the following chart:

Area	Type	Measured		Indicated		Total	
		<i>Tonnes (Mt)</i>	<i>MgO (%)</i>	<i>Tonnes (Mt)</i>	<i>MgO (%)</i>	<i>Tonnes (Mt)</i>	<i>MgO (%)</i>
In Mining License	Class 1 ¹	11.7	39.4	3.0	39.7	14.7	5.8
	Class 2 ²	3.5	36.5	1.1	34.4	4.7	1.6
Out of Mining Licence ³	Class 1	68.7	39.9	26.4	39.9	95.1	38.0
	Class 2	4.5	35.4	4.4	36.3	8.9	3.2
In and Out of Mining License	Class 1	80.4	39.9	29.4	39.8	109.8	43.8
	Class 2	8.0	35.5	5.5	35.9	13.5	4.8

Notes:

- Class 1 refers to material above 38% MgO.
- Class 2 refers to material between 32% and 38% MgO.
- Expanded permit boundary has been supplied to Minarco-Mineconsult. This permit, to the understanding of Minarco-Mineconsult, will be under application in the near future.

Source: The Technical Report (2010)

ECONOMIC OUTLOOK AND INDUSTRY ANALYSIS

China's Economic Outlook

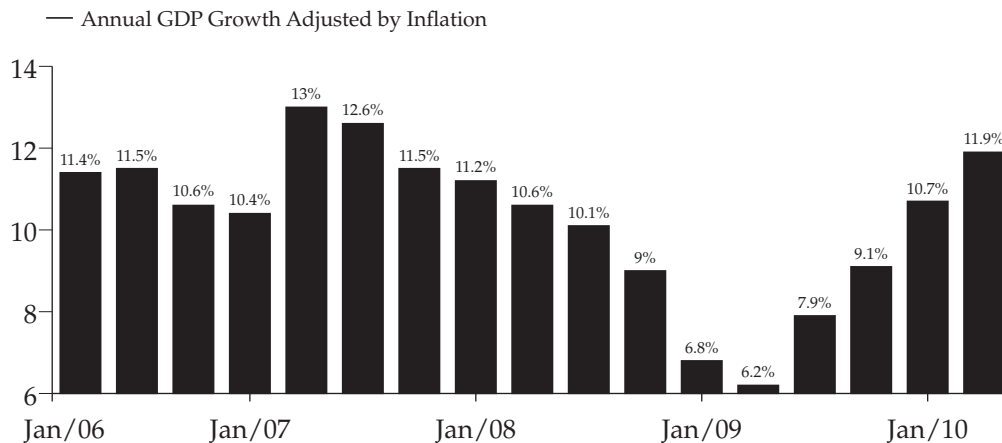
Boosted by the RMB 4 trillion government stimulus plan and the cumulative effects of fiscal and monetary easing, China has shifted its economy driver from exports towards domestic consumption and made the most impressive recovery from the global financial crisis among all major economies. China recorded an impressive GDP growth of 8.7% in 2009. According to 2009 IMF's world GDP ranking, China's economy is now the third largest in the world after that of the United States and Japan. It should not be to anyone's surprise that if China can sustain its current growth rate, its GDP ranking will further advance in the foreseeable future.

	Country	GDP <i>(Millions of USD)</i>
1	United States	14,256,275
2	Japan	5,068,059
3	People's Republic of China	4,908,982
4	Germany	3,352,742
	World	57,937,460

Source: 2009 List by the International Monetary Fund

Entering 2010, with economies worldwide starting to settle down from the global financial crisis, China continues to exhibit strong momentum in its economic growth, particularly in the areas of investment in infrastructures, domestic consumption, and a rebound in exports from a year ago.

Riding on the momentum of its robust economic growth, the Chinese government has begun to plan for the exiting stimulus monetary policies with a focus on structural economic and social issues. In the annual National People's Congress meeting held in March this year, the Chinese government has clearly outlined the three main focal points of work for 2010. In order to achieve a sustainable growth in future years, Chinese government is determined to achieve a 8% economic growth while keeping the inflation rate target of around 3% and set the M2 money supply and new loan growth targets at 17% and RMB7.5 trillion, respectively.



Source: National Bureau of Statistics

However, there are still many challenges and uncertainties for the Chinese government to deal with in order to ensure a speedy economic recovery without the creation of excessive liquidity in the financial system, which will then lead to excessive asset inflation in both the stock and property markets. Managing inflation risk is also a key issue this year, and a series of fine tuning measures are expected to be implemented on a timely basis, such as stricter restrictions on mortgage lending, tighter requirement for second and third home purchases, and further increment of bank's reserve requirement ratio, or even an interest rate rise. Besides, as the global demand recovers and external exports grow, the Chinese government will face increasing pressure from its trading partners, who demand the Renminbi to be appreciated. Under tremendous pressure from various nations around the world, the Economist intelligence Unit¹ has forecasted that the Chinese government will allow Renminbi to rise moderately this year.

¹ Source: Country Report China May 2010, The Economist Intelligence Unit. The Economist Intelligence Unit is the world's foremost provider of country, industry and management analysis. Founded in 1946, the Economist Intelligence Unit is now a leading research and advisory firm with more than 40 offices worldwide.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

Despite these possible tightening measures, the Chinese government will continue its “proactive fiscal policy and moderately easing monetary policy” to maintain a healthy economic growth in longer term. The real GDP will still be able to expand by around 9.5% in 2010 and the growth will then slow to around 8.8% in 2011.

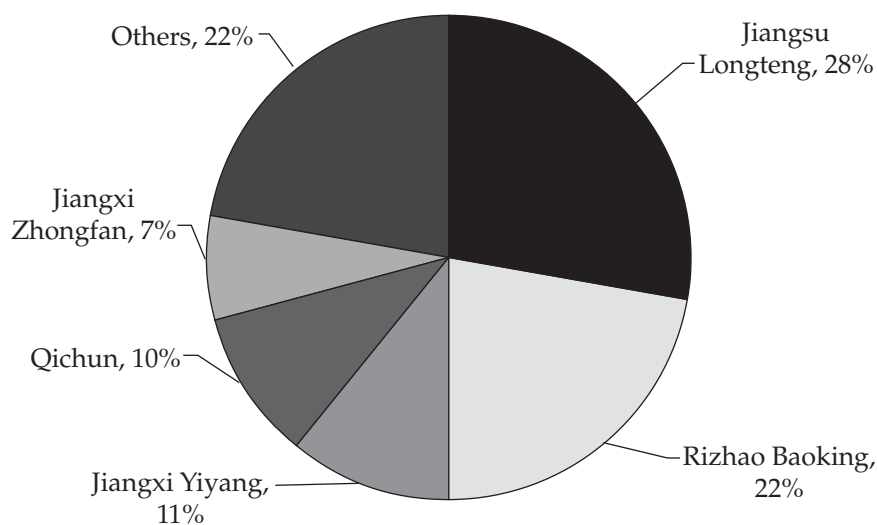
Economic Indicators	2008	2009	2010	2011
	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Forecast</i>
Real GDP growth (%)	9.0	8.7	9.5	8.8
Consumer price inflation (%)	5.9	-0.7	2.7	2.4
Current-account balance (% GDP)	9.6	6.1	4.2	3.5
Commercial bank prime rate (%)	5.31	5.31	5.25	5.75
Exchange rate RMB:US\$ (average)	6.95	6.83	6.55	6.30

Source: National Bureau of Statistics of China and Bloomberg

Industry Analysis and Outlook

Serpentine is a mineral that contains magnesium and silicon as its main components. It is often use for as flux for steel smelting and making, and can also be used as fertilizers. In 2009, Jiangsu Longteng is the market leader in serpentine supply in China, followed by Rizhao Baoking Mining Industries & Resource and Jiangxi Yiyang. The major consumers of serpentine in China are iron and steel manufactures.

China Serpentine Share of Demand by Supplier



Source: Freedonia Custom Research, Inc. (2010)

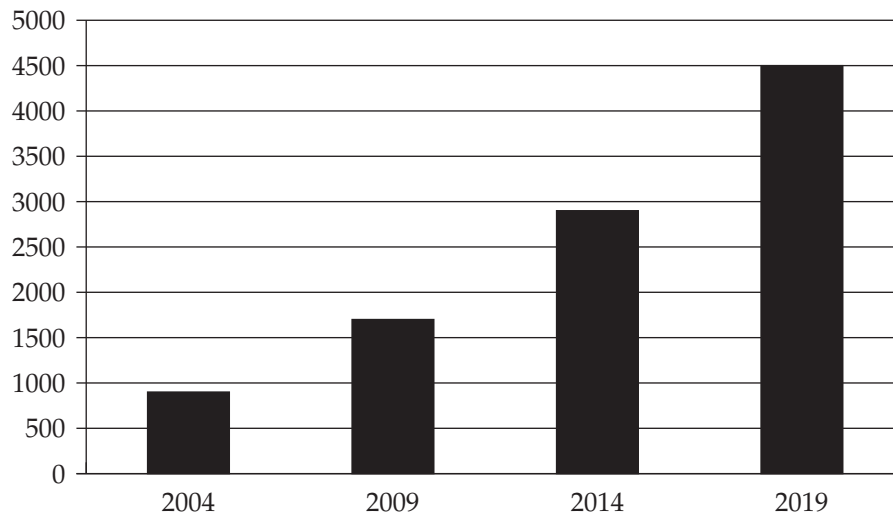
Serpentine Producer Profile Summary

Company	2009 Total Serpentine Sales (US\$)	2009 Domestic Serpentine Sales (% of total)	Target End-Use Segments	Identified Major Customers
Jiangsu Longteng Chemical	4.0	100	Iron and steel, fertilizer	Baosteel Group, Masteel, Nanjing Steel, Shan Steel, Han-Steel
Rizhao Baoking Mining Industries & Resource	3.6	90	Iron and steel, other	Baosteel Group, Shandong Laiwu Steel, Handan Steel
Jiangxi Yiyang Serpentine Ore	1.6	100	Iron and steel, fertilizer	Baosteel Group
Qichun Serpentine Mining	1.5	100	Iron and steel, other	Nanjing Steel, Shagang, Baosteel Group (Nantong)
Jiangxi Zhongfan Serpentine Mining	1.0	100	Iron and steel, other	Baosteel Group, Hangzhou Steel, Sha-Steel

Source: Freedonia Custom Research, Inc. (2010)

According to the Market Research Report, demand for serpentine in China is expected to grow rapidly in the next 10 years, growth at a compound annual rate of 11.3% from 1.7 million tonnes in 2009 to 2.9 million tonnes in 2014. The growth is expected to continue at a rate of 9.2% to 2019, representing 4.5 million tonnes of demand.

China Serpentine Demand (in thousand tonnes)



Source: Freedonia Custom Research, Inc. (2010)

Serpentine prices are also expected to soar in the next 10 years due to higher energy and material costs associated with the positive economic growth in China. These factors are expected to drive serpentine prices to grow by 7.8% annually to 2014 and 5.3% per year to 2019.

The Chinese iron and steel production sector has a significant influence on the demand for serpentine, and this influence is likely to continue. In the near future, the structure of the Chinese iron and steel sector could be affected by various government initiatives to improve the overcapacity situation with the sector.

VALUATION METHODOLOGIES

The valuation of the Mineral Assets can be broadly classified into one of three approaches, namely the asset approach, market approach and income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair market value analysis of the Mineral Assets.

The Asset Approach

This is a general way of determining the fair market value indication of a business, business ownership interest, security, intangible assets, or mineral asset by using one or more methods based on the value of the assets net of liabilities.

Based on the theory that the value of a business is equal to the sum of its parts, value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

We have considered but decided against the asset approach to arrive at a fair market value of the Mineral Assets as of the Valuation Date because:

- The values of the Mineral Assets are determined by the amount of resources in the mine deposits from which economic benefits can be derived, rather than the cost of replacement of the estimated mineral resources.

The Market Approach

This is a general way of determining a fair market value indication of a business, business ownership interest, security, intangible asset or mineral asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Value is established based on the principle of substitution. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should approximate one another.

We have considered but rejected the market approach to arrive at the fair market value of the Mineral Assets as of the Valuation Date because:

- The market approach is the approximate transaction price of a company/ business in the market place. There is no comparable transaction in the public market for serpentine mines; and
- Available public information in relation to acquisitions frequently involves specific buyers who pay a premium/discount under their unique circumstances. This makes it difficult to know if the price paid truly represents the approximate price of the transaction.

The Income Approach

This is a general way of determining a fair market value indication of a business, business ownership interest, security, intangible asset, or mineral asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the Valuation Date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

We have applied the income approach to arrive at the fair market value of the Mineral Assets as of the Valuation Date because:

- Economic benefit streams generated by the Mineral Assets can be identified and ascertained based on historical financial information provided by the management of the Company, as well as the serpentine resources; production schedule and cost estimates provided by the management of the Company, as well as detailed in the Technical Report.

MAJOR ASSUMPTIONS OF MINERAL ASSETS VALUATION

The valuation of the Mineral Assets comprises of an economic measure reflecting the fair market value of the entire business operation of the Mineral Assets as of the Valuation Date. Our development of the fair market value will be performed by using a discounted cash flow (“DCF”) methodology, which requires a number of assumptions, including revenue and expense forecasts and capital expenditure requirement. The nature and underlying rationale for these assumptions will be discussed below.

Provided below is a brief description of all major assumptions, with the majority of which were extracted from the Technical Report, the Market Research Report and the Feasibility Study.

Serpentine Resources

According to the Technical Report, the estimated resources contained within the Donghai Serpentine Mine is shown as follows:

Area	Type	Total Indicated and Measured Resources	
		Tonnes (Mt)	MgO (%)
In Mining Licence	Class1	14.7	5.8
	Class2	4.7	1.6
Expanded Mining Licence	Class1	95.1	38.0
	Class2	8.9	3.2
Combined Mining Licence	Class1	109.8	43.8
	Class2	13.5	4.8

The resource estimation in the Technical Report are conditioned on the premise that the revised mining license, as described in the Feasibility Study, will be granted. As advised by the management of the Company, the expansion permit will be under application in the near future.

Mining Schedule

We have relied heavily on the mining schedule provided by Minarco-Mineconsult for the ore mined, waste and pre-strip schedule.

Production Capacity

Year	Serpentine Output (tonnes)	
	2010	2018+
Production Capacity	620,000**	2,000,000

** With reference to the mining plan, the production capacity will gradually increase in accordance to the Company's capital investment plan from 2010. The mine will reach its maximum capacity of 2 million tonne per annum at 2018.

As advised by the management of the Company, although the current permitted capacity is 300,000 tonnes per annum, there are no legal impediments to the granting of the updated mining licence.

Basis of Growth in Serpentine Demand and Price of Serpentine Products

According to the Market Research Report, demand for serpentine in China is expected to grow by 11.3% annually to 2.9 million in 2014 and further growth is expected to 4.5 million tons in 2019. Furthermore, serpentine price is expected to grow by 7.8% annually to 2014 and thereafter 5.3% per year to 2019 due to higher energy and material costs. The price of Serpentine is currently around RMB80 per tonne with reference to the Feasibility Study.

Basis of Direct and Indirect Costs

The direct costs of the mining project mainly include pre-stripping, loading, drill and blast, hauling, crushing and VAT. The bases of these costs are made in accordance with the Technical Report and assumptions provided by management. Most of these operation processes are outsourced and 3% long term inflation rate is applied on these direct costs.

The indirect costs of the mining project consist of administrative expenses, maintenance, mining safety, resource tax, urban construction tax and education tax. These cost assumptions are made with reference to the Feasibility Study and historical financial information provided by the Company. Similarly, 3% long term inflation rate is applied on these indirect costs.

Income Tax Rate

Income tax rate for the Mineral Assets is applied at the statutory rate of 25% in PRC.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

Capital Expenditure

According to the Technical Report, the capital expenditures for the mining project include:

Category	Capital Expenditures (RMB' mil)
Pre-Stripping	75.0
Land Usage	18.4
Resource Granting	54.3
Other Development Fees	9.0
Crushing Plant	22.3
General Site Layout	15.2
Mining Infrastructure	1.0
Total	195.23

As the Company plans to outsource the mining operation, no mining equipment costs have been included in the capital cost estimate. The capital expenditure schedule is spread over 5 years.

Other Assumptions

- there will be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in China;
- there will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;
- there will be no material changes to the estimated reserves and resources reported in the Technical Report;
- all relevant legal approvals, mining rights, exploration permit and business certificates or licenses for mining activities are formally obtained and that no additional costs or fees are needed to procure such during the application;
- the Mineral Assets are free from any encumbrance and liability including but not limited to mortgage, charge, land premium, relocation compensation and development costs;
- the Company will be able to obtain all mining licences for their expansion plan of their mining area and shall have uninterrupted rights to operate the Mineral Assets throughout the valuation period until all 2039; and
- the Company will retain competent management, key personnel, and technical staff to support the ongoing mining and exploration activities.

DETERMINATION OF DISCOUNT RATE

We developed the cost of equity (the “Re”) and the cost of debt (the “Rd”) for the valuation of the Mineral Assets based on data and factors relevant to the economy and industry as at the Valuation Date. These costs were then weighted in terms of a typical or market participant industry capital structure to arrive at the estimated weighted average cost of capital (the “WACC”).

Development of Weighted Average Cost of Capital (the “WACC”)

We considered market and industry data to develop the WACC. The traditional formula for calculating the WACC is:

$$\text{WACC} = (\%D) * (Rd) * (1 - \text{tax rate}) + [(\%E) * (Re)]$$

Development of Cost of Equity (the “Re”)

We considered the Capital Asset Pricing Model (the “CAPM”) to calculate the cost of equity. Such method is considered a common method.

Capital Asset Pricing Model

CAPM, as applied in this valuation, can be summarized as follows:

$$Re = Rf + \text{Beta} * ERP + RPs + RPu$$

Risk Free Rate (“Rf”)

Rf was found by looking at the yields of the Chinese government bonds. Ideally, the duration of the security used as an indication of Rf should match the horizon of the projected cash flows that were being discounted, which was into perpetuity in the present case. We relied on the 30-Year Chinese Government Bond yield of 3.947% as at the Valuation Date.

Equity Risk Premium (“ERP”)

ERP is calculated by subtracting the long-term average of the income return on riskless asset from the long-term average stock market return. We relied on International Equity Risk Premia Report Handbook published by Ibbotson Associates. For those markets that are not covered by the above publication, the equity risk premium of US market is multiplied by the relative volatility between S&P 500 Index and equity index of China to obtain the equity risk premium. The ERP in China applied is 7.2%.

Beta

In the CAPM formula, beta is a measure of the systematic risk of a particular investment relative to the market for all investment assets. We obtained betas for six identified publicly traded guideline companies (“Guideline Public Companies”), details of which are listed in the table below. The identified betas were unlevered to remove the effects of financial leverage on the indication of relative risk provided by the beta, and re-levered at the optimal industry capital structure.

Selection of Guideline Public Companies

Due care was exercised in the selection of Guideline Public Companies by using reasonable criteria in deciding whether or not a particular company is relevant to compute beta in our determination of Re.

In selecting the Guideline Public Companies, we started with a description of the company being valued, in terms of lines of business, location of the mine and other criteria. For this particular engagement, we have selected the Guideline Public Companies based on the following criteria:

Status of operation

The Guideline Public Companies are engaged in the exploring and mining of coking coal, which is another common flux for the steel industry. Since there is no identical company in the market, regardless of which industry it is, it is always not the case that the Guideline Public Companies are engaged in the identical line of business, but rather we have looked into companies with similar or complementary businesses.

Regional status geographically

The mineral properties of the Guideline Public Companies are located in China.

Market risk and investment status

The Guideline Public Companies are listed on the Stock Exchanges of Hong Kong and China.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

Sufficient market knowledge and reflection in enterprise value

The following is the list of Guideline Public Companies that we have reviewed in connection with the valuation.

Company	Ticker	Description
Taiyuan Coal Gasification Co Ltd	000968 CH	Produces and markets coal, and coke
Xinjiang International Industry Co Ltd	000159 CH	Manufactures and distributes coal, coke and related products
Changchun Gas Co Ltd	600333 CH	Produces and distributes gas, metallurgical coke and coal bar
Hidili Industry International Development Ltd	01393 HK	Mines and produces clean coal and coke products
Fushan International Energy Group Ltd	00639 HK	Produces and sells coking coal products
Loudong General Nice Resources China Holdings Ltd	00988 HK	Produces metallurgical coke, coal gas, coke tar, and crude
Median Un-Levered Beta		Median Re-levered Beta
1.045		1.070

Small company premium ("RPs")

RPs, over the risk premium for the market, can be calculated by subtracting the estimated return in excess of the riskless rate from the realized return in excess of the riskless rate of companies. In the case of the Mineral Assets, we applied the size premium return in excess of CAPM of companies the Microcap segment of NYSE/AMEX/NASDAQ in the United States. We relied on the studies performed by Ibbotson Associates as reflected in their Stocks, Bonds, Bills, and Inflation Yearbook.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

Specific company adjustment ("RPu")

RPu for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to the Mineral Assets. In the case of the Mineral Assets, we believe that all risk factors have been properly accounted for in the cost of equity and therefore it is not necessary to apply an additional RPu.

Cost of Equity ("Re") Conclusion

CAPM

Risk Free Rate ("Rf")	3.947%
Beta	1.070
Equity Risk Premium ("ERP")	7.20%
Small Company Premium ("RPs")	3.99%
Specific Company Adjustment ("RPu")	0.00%
Cost of Equity ("Re")	15.64%

Weighted Average Cost of Capital ("WACC")

WACC (being the discount rate for this valuation) is determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure. We have "levered" the subject companies as if it mirrored the median percentage of debt as the comparable companies which are in the emerging stage of their mining operation, on the assumption that over time, the subject company will approach an optimal capital structure with 3.08% of debt, which is the less expensive form of capital than equity, to remain competitive. Subsequent to the calculations of cost of equity and the cost of debt, the following equation is used to develop the WACC:

$$WACC = [(\%D) \times (Rd) \times (1-T)] + [(\%E) \times (Re)]$$

The calculation of WACC, or the discount rate, therefore becomes:

WACC

Percentage of Interest Bearing Debt (%D)	3.08%
x Market Cost of Debt (China above 5 years lending rate) (Rd)	5.94%
x 1 – Tax	75.00%
Weighted Cost of Debt	0.14%
+	
Percentage of Equity (%E)	96.92%
x Cost of Equity ("Re")	15.64%
Weighted Cost of Equity	15.16%
 WACC	 15.30%

VALUATION ANALYSIS

Valuation Methodology Applied

Income Approach – Discounted Cash Flow Method

- DCF requires an explicit forecast of the future benefit streams over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable, i.e. not varying from period to period and the benefit stream is determined to continue into the future without compromise.
- the essential elements of DCF are: (1) the expected earnings stream to be discounted, and (2) the discount rate (WACC).
- the net cash flows from the Mineral Assets were estimated, and we discounted the sum to a present value at the appropriate discount rate, as illustrated below:

$$PV = \frac{E_1}{(1+k)} + \frac{E_2}{(1+k)^2} + \frac{E_3}{(1+k)^3} + \dots + \frac{E_n}{(1+k)^n}$$

E1, 2, 3, etc.	=	Expected economic income in the 1st, 2nd, 3rd periods, and etc.
En	=	Expected economic income in the nth or last period in which an element of income is expected.
k	=	WACC

DISCOUNT FOR LACK OF MARKETABILITY

The Discount for Lack of Marketability (“DLOM”) can be the valuation adjustment with the largest monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. The DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In selecting the appropriate DLOM, we considered the length of time and effort required by management in order to sell a controlling interest. This typically would take at least three to nine months if a transaction could be consummated at all. A controlling interest does enjoy the benefit of controlling the cash flow stream of the Mineral Assets during this time period. Finally, we considered the expenses that are typically incurred to sell a business which are substantial such as legal fees, accounting fees, and intermediary fees.

The Mineral Assets are not traded nor does an established market exist for it, prudent investors would apply a discount to reflect its lack of liquidity and the current market situation. For this reason, we adopted a 15% DLOM to reflect this fact in our valuation for the fair market value of the Mineral Assets as of the Valuation Date.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

SENSIVITY ANALYSIS

Both the WACC and the long-term serpentine price adopted play a pivotal role in the valuation as they are very sensitive to the fair market value of the Mineral Assets. The fair market value under different combinations of WACC and serpentine price is presented below:

WACC	Business Enterprise Value (RMB' million)				
	Serpentine price				
	RMB72	RMB76	RMB80	RMB84	RMB88
13.30%	360.5	402.2	443.8	485.5	527.2
14.30%	319.4	357.5	395.7	433.8	472.0
15.30%	284.0	319.1	354.1	389.2	424.2
16.30%	253.4	285.7	318.1	350.5	382.8
17.30%	226.7	256.7	286.7	316.7	346.7

CONCLUSION OF VALUES

In conclusion, based on the analysis stated above and on the valuation methods employed, it is our opinion that the fair market value of the Mineral Assets as of the Valuation Date are as follow:

RENMINBI THREE HUNDRED AND FIFTY-FOUR MILLION AND ONE HUNDRED THOUSAND ONLY (RMB354,100,000)

Yours faithfully,
For and on behalf of

GREATER CHINA APPRAISAL LIMITED

K. K. Ip
Registered Business Valuer of HKBVF
MRICS, MHKIS and RPS (GP)
Managing Director

Samuel Y.C. Chan
MBA, CVA, CM&AA
Associate Member, American Institute
of Minerals Appraisers
Director
Head of Business Valuation

Analysed and reported by
Carol Tso

Note: Mr. K.K. Ip, a Chartered Valuation Surveyor of The Royal Institution of Chartered Surveyors (RICS), Registered Professional Surveyor of The Surveyors Registration Board of Hong Kong, Member (General Practice Division) of The Hong Kong Institute of Surveyors (HKIS) and Registered Business Valuer of The Hong Kong Business Valuation Forum (HKBVF), has substantial experience in the metals and mining industry and has been conducting valuations of mineral assets, property, plant and machinery, business enterprise and intellectual property valuations for various purposes in Greater China Region since 1992.

Mr. Samuel Y.C. Chan, MBA, Certified Valuation Analyst of The International Association of Consultants, Valuators and Analysts (IACVA), Associate Member of The American Institute of Minerals Appraisers and Certified Merger & Acquisition Advisor, has been conducting business enterprise and intellectual property valuations for various purposes since 2004. He also spends a significant portion of his time in valuation of financial instruments including convertible bonds, preference shares, swaps, corporate guarantees and employee share options for private and public companies in China, Hong Kong, Taiwan, Japan, Singapore and the United States.

APPENDICES – STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in this report are summarized below. Other assumptions are cited elsewhere in this report.

The valuation may not be used in conjunction with any other valuation or study. The value conclusion(s) stated in this valuation are based on the program of utilization described in the report and may not be separated into parts. The valuation was prepared solely for the purpose, function, and party so identified in the report. The valuation report may not be reproduced, in whole or in part, and the findings of the report may not be utilized by a third party for any purpose, without the express written consent of Greater China Appraisal Limited.

No change to any item in any of the valuation report shall be made by anyone other than Greater China Appraisal Limited, and we shall have no responsibility for any such unauthorized change.

Unless otherwise stated in the valuation, the valuation of the business has not considered or incorporated the potential economic gain or loss result from contingent assets, liabilities, or events existing as at the Valuation Date.

The working papers for this engagement are being retained in our files and are available for your references; we would be available to support our valuation conclusion(s) should this be required. Those services would be performed for an additional fee.

Neither all nor any part of the contents of the report shall be disseminated or referred to the public through advertising, public relations, news or sales media, or any other public means of communication, or referenced in any publication, including any private or public offerings, including but not limited to those filed with The Stock Exchange of Hong Kong Limited or other governmental agency, without the prior written consent and approval of Greater China Appraisal Limited.

Management is assumed to be competent, and the ownership to be in responsible hands, unless noted otherwise in this report. The quality of business management can have a direct effect on the viability and value of the business. Any variance from this assumption could have a significant impact on the final value estimate.

Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future legislation, including any environment or ecological matters or interpretations thereof.

Events and circumstances frequently do not occur as expected, and there will usually be differences between prospective financial information and actual results, and those differences may be material. Accordingly, to the extent that any of the information used in this analysis and report requires adjustment, the resulting fair value would be different.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

Any decision to purchase, sell, or transfer any interest or asset in the acquirer or acquire company, or any portion thereof, shall be solely your responsibility, as well as the structure to be utilized and the price to be accepted.

The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business or assets might be concluded at a higher value or at a lower value, depending on the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

All facts and data set forth in our letter report are true and accurate to the best of our knowledge and belief.

No investigation of legal fees or title to the property has been made, and the owner's claim to the property has been assumed valid. No consideration has been given to liens or encumbrances that may be against the property except as specifically stated in the valuation executive summary report.

During the course of the valuation, we have considered information provided by the management and other third parties. We believe these sources to be reliable, but no further responsibility is assumed for their accuracy.

We have conducted interviews with the current management of the acquiring company concerning the past, present, and prospective operating result of the acquiring company.

Any projections of future events described in this report represent the general expectancy concerning such events as at the Valuation Date. These future events may or may not occur as anticipated, and actual operating results may vary from those described in our report.

This valuation study is intended solely for use by the management of the acquiring company in connection with financial reporting relating to HKAS and HKFRS and should not be used for any other purpose or distributed to third parties, in whole or in part, without the express written consent of Greater China Appraisal Limited.

We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the date of this report.

Our report is based on historical and/or prospective financial information provided to us by management and other third parties. This information has not been audited, reviewed, or compiled by us, nor has it been subjected to any type of audit, review, or compilation procedures by us, nor have we audited, reviewed, or compiled the books and records of the subject company. Had we audited, reviewed, or compiled the underlying data, matters may have come to our attention that would have resulted in our using amounts that differ from those provided; accordingly, we take no responsibility for the underlying data presented or relied upon in this report.

APPENDIX V VALUATION REPORT ON THE SERPENTINE MINE

We have relied upon the representations of the owners, management, and other third parties concerning the value and useful conditions of all equipment, real estate, investments used in the business and any other assets of the business, and that such assets are free and clear of liens and encumbrances, or that the Company has good title to all assets.

Our valuation judgment, shown herein, pertains only to the subject assets, the stated value standard (fair value), as at the Valuation Date, and only for the stated valuation purpose (financial reporting).

The various estimates of value presented in this report apply to the valuation report only, and may not be used out of the context presented herein.

In all matters that may be potentially challenged by The Stock Exchange of Hong Kong Limited, a Court, the Inland Revenue Department, or other governmental and/or regulatory body, we do not take responsibility for the degree of reasonableness of contrary positions that others may choose to take, nor for the costs or fees that may be incurred in the defence of our recommendations against challenge(s). We will, however, retain our supporting work papers for your matter(s), and will be available to assist in active defence of our professional positions taken, at our then current rates, plus direct expenses at actual, and according to our then current Standard Professional Agreement.

The following are the particulars of Mr. Sheng Hong who will retire and, being eligible, shall offer themselves for re-election at the EGM pursuant to the articles of association of the Company and the Listing Rules:

Mr. Sheng Hong, aged 47, is an independent non-executive director of the Company and a member of the audit committee and remuneration committee of the Company. Mr. Sheng is the director of Hadrian Manufacturing (Asia) Limited and the director of operations and general manager of Hadrian (Shanghai) Trading Limited. The Hadrian group is principally engaged in production and sale of metal partitions and lockers. Mr. Sheng has over 20 years' experience in management of corporation and investment. Mr. Sheng was employed by China Resources (Holdings) Company Limited from 1986 to 1996. Mr. Sheng holds a Bachelor's degree of Engineering Mechanics from Tongji University, Shanghai, PRC.

Pursuant to a letter of appointment dated 24 September 2010 made between the Company and Mr. Sheng, Mr. Sheng has been appointed as an independent non-executive director of the Company for a fixed term of 2 years commencing from 24 September 2010 provided that either Mr. Sheng or the Company may terminate this appointment by giving at least three months' prior notice in writing, subject to the provisions of retirement and rotation of directors under the articles of association of the Company. The remuneration payable to Mr. Sheng under the letter of appointment is a fixed sum of HK\$30,000 per annum. The remuneration is determined based on the estimated time to be spent by Mr. Sheng on the Company's matters and will be reviewed by the Board annually. Under the said letter of appointment, Mr. Sheng will be reimbursed for all reasonable expenses incurred in connection with the performance of his duties to the Company. As an independent non-executive director of the Company, Mr. Sheng will also be eligible to be granted options to subscribe for shares of the Company under the share option scheme adopted by the Company.

Mr. Sheng did not hold any position with the Company or any of its subsidiaries immediately before the date of his appointment, nor did he have any interest in the shares or underlying shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter. 571 of the Laws of Hong Kong) at the Latest Practicable Date. Mr. Sheng did not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Mr. Sheng did not hold any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last 3 years, and there are no matters concerning Mr. Sheng that needs to be brought to the attention of the shareholders of the Company nor is there any other information regarding Mr. Sheng required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and the issue of the Consideration Shares (but taking no account of any consideration shares to be issued for the purpose of the acquisition of Sunshine Partners Financial Holdings Limited as disclosed in the announcement of the Company dated 18 June 2010), are set out as follows:

(i) As at the Latest Practicable Date

Authorised share capital:

		HK\$
<u>5,000,000,000</u>	Shares	<u>100,000,000</u>

Issued and fully paid share capital: HK\$

<u>2,253,070,000</u>	Shares	<u>45,061,400</u>
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(ii) Immediately after Completion and the issue of the Consideration Shares

Authorised share capital:

		HK\$
<u>5,000,000,000</u>	Shares	<u>100,000,000</u>

Issued and fully paid share capital: HK\$

<u>2,253,070,000</u>	Shares	<u>45,061,400</u>
<u>100,000,000</u>	Consideration Shares	<u>2,000,000</u>
<u>2,353,070,000</u>	Shares	<u>47,061,400</u>

Save as disclosed above, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) (i) 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 taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Long position in the Shares

Name of Director	Number of Shares held			Percentage of issued share capital of the Company
	Personal interests	Corporate interests	Total	
Chi Wen Fu	63,155,000	918,484,850	981,639,850	43.57%
		(Note 1)		
Chi Bi Fen	7,500,000	–	7,500,000	0.33%
Liu Hoi Keung	1,000,000	–	1,000,000	0.04%

Note:

- These Shares are held by Alpha Sino International Limited ("Alpha Sino") and are deemed corporate interests by virtue of Mr. Chi's holding of 83.74% of the issued share capital of Alpha Sino which entitled him to exercise or control the exercise of one-third or more of the voting power at general meeting of Alpha Sino. Mr. Chi Wen Fu and Mr. Shum Sai Chit are directors of Alpha Sino.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) (i) 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 taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Director's interests in assets, contracts or arrangements of the Group

None of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group. None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group taken as a whole.

4. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Enlarged Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors and their respective associates were considered to have any interests in businesses which compete or were likely to compete, either directly or indirectly, with the business of the Group, other than those businesses which the Directors were appointed as directors to represent the interests of the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company or the relevant member of the Group within one year without payment of compensation other than statutory compensation).

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Enlarged Group within two years preceding the Latest Practicable Date and which are or may be material:

- (i) the sale and purchase agreement between (i) Capital Idea Investments Limited ("Capital Idea"), a wholly-owned subsidiary of the Company, as purchaser; and (ii) Win Union Limited as vendor in respect of the acquisition of 80% of the entire issued share capital of Fullocean Group Limited at a cash consideration of the Hong Kong dollar equivalent of RMB36,168,000 dated 24 September 2008;

- (ii) the sale and purchase agreement between (i) Century Sunshine (Shanghai) Management Co., Limited, a wholly-owned subsidiary of the Company, as purchaser; and (ii) Lian Yun Port De Mei New Energy Technology Limited as vendor in respect of the acquisition of 32.2% equity interest in Jiangsu Azureblue Technology Development Co., Limited at a cash consideration of RMB32,200,000 dated 3 October 2008;
- (iii) the equity interest transfer agreement dated 27 March 2009 between Fly Union as purchaser and 馬強 (Mr. Ma Qiang) as vendor in relation to the acquisition of 5.304% equity interest in Jiangsu Longteng at a consideration of RMB750,000;
- (iv) the sale and purchase agreement between (i) Capital Idea as purchaser; and (ii) Ms. Lin Xiu Mei as vendor in respect of the acquisition of 4.5% of the issued share capital of Fullocean Group Limited at a cash consideration of HK\$1,511,100 dated 30 July 2009;
- (v) the conditional sale and purchase agreement between (i) Capital Idea as purchaser; and (ii) Mr. Cheng King Sang and Mr. Yin Hong Sheng as vendors in respect of the acquisition of collectively 10% of the issued share capital of China Magnesium Limited at a total cash consideration of HK\$5,698,400 dated 30 July 2009, which transaction had not been proceeded with;
- (vi) the bought and sold notes between Fullocean Group Limited and each of Mr. Cheng King Sang and Mr. Yin Hong Sheng dated 3 September 2009 in respect of a total of 7% of the issued share capital in China Magnesium, being the pro rata entitlement of Fullocean Group Limited under the pre-emptive offer made by Mr. Cheng King Sang and Mr. Yin Hong Sheng, at a total consideration of HK\$3,988,880;
- (vii) the equity interest transfer agreement between Century Sunshine (Jiangxi) Ecological Technology Limited, a wholly owned subsidiary of the Company established in the PRC, as transferor and Mr. Wu Jiu Dong as transferee in respect of the disposal of 60% equity interest in Fuzhou Meidi International Trading Limited at a cash consideration of RMB2,050,000 dated 20 January 2010;
- (viii) the conditional sale and purchase agreement dated 18 June 2010 between (i) Mr. Yang Yuchuan and Ms. Zou Li as vendors; (ii) Century Sunshine Ecological Technology Limited as purchaser; and (iii) the Company as issuer in respect of the acquisition of the entire issued share capital of Sunshine Partners Financial Holdings Limited at a total consideration of HK\$87,750,000 (subject to post-completion adjustment) which shall be satisfied partially in cash and partially by the issue of consideration shares by the Company;
- (ix) the MOU; and

- (x) the Agreement.

8. EXPERTS AND CONSENTS

- (a) The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
SHINEWING (HK) CPA Limited ("SHINEWING")	Certified Public Accountants
Greater China Appraisal Limited ("Greater China")	independent professional valuer
Minarco	independent technical adviser
Chen & Co. Law Firm ("Chen & Co")	the PRC legal adviser of the Company

- (b) As at the Latest Practicable Date, neither SHINEWING, Minarco, Greater China nor Chen & Co. had any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Neither SHINEWING, Minarco, Greater China nor Chen & Co. has withdrawn its written consent to the issue of this circular with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.
- (d) Neither SHINEWING, Minarco, Greater China nor Chen & Co. had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2009 (being the date to which the latest published audited financial statements of the Group were made up) up to the Latest Practicable Date.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during 9:00 a.m. to 5:00 p.m. on any week day, except Saturdays, Sundays and public holidays at the principal place of business of the Company in Hong Kong at Unit 3907, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong, from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association and the Articles of Association of the Company;
- (b) the annual reports of the Company containing audited consolidated financial statements of the Group for the two years ended 31 December 2009;
- (c) the interim report of the Company for the six months ended 30 June 2010;
- (d) the accountants' report on the Target Group, the texts of which are set out in Appendix II to this circular;
- (e) the accountants' report on the Longteng Group, the texts of which are set out in Appendix II to this circular;
- (f) the accountants' report issued by SHINEWING in connection with the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (g) the technical report on the Serpentine Mine prepared by Minarco as set out in Appendix IV to this circular;
- (h) the valuation report on the Serpentine Mine prepared by Greater China as set out in Appendix V to this circular;
- (i) the PRC legal opinion related to the Serpentine Mine;
- (j) the written consents referred to in the paragraph headed "Experts and consents" in this appendix;
- (k) the outsourcing contract entered into between Jiangsu Longteng and an independent party in relation to the provision of certain mining operations to Jiangsu Longteng at an aggregate fee of RMB12.38 per tonne.
- (l) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (m) market research report titled "Serpentine in China" as prepared by Freedonia Custom Research, Inc; and
- (n) this circular.

10. MISCELLANEOUS

- (i) The company secretary of the Company is Mr. Luk Sai Wai Simon, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, and an associate member of Institute of Chartered Accountants in England and Wales. Mr. Luk received a Master degree in Business Administration from the University of Strathclyde, United Kingdom.
- (ii) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the head office and principal place of business of the Company is situated at Unit 3907, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.
- (iii) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (iv) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

NOTICE OF EXTRAORDINARY GENERAL MEETING



世紀陽光

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

世紀陽光集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 509)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Century Sunshine Group Holdings Limited (the “**Company**”) will be held at Unit 3907, 39/F, COSCO Tower, 183 Queen’s Road Central, Hong Kong on Thursday, 14 October 2010 at 2:30 p.m. to consider and, if thought fit, passing, with or without modifications, the following resolutions (unless otherwise indicated, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 25 September 2010 (the “**Circular**”) relating to, among other things, the Agreement and the transactions contemplated thereunder):–

AS ORDINARY RESOLUTIONS

1. “**THAT**:–

- (a) the Agreement as defined and described in the circular of the Company dated 25 September 2010 (the “**Circular**”), a copy of the Agreement marked “A” together with a copy of the Circular marked “B” being tabled before the meeting and initialled by the chairman of the meeting for identification purpose, and all transactions contemplated thereunder and in connection therewith, including the acquisition of the Sale Interests (as defined in the Circular) and the issue and allotment of the Consideration Shares (as defined in the Circular), be and are hereby approved, ratified and confirmed;
- (b) the directors of the Company (the “**Directors**”) be and are hereby authorized to execute all such other documents and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the Agreement and completion thereof as he may consider necessary, desirable or expedient to give effect to the Agreement and the transactions contemplated thereunder, including, without limitation, exercising or enforcing any right thereunder and to agree to any amendment to any of the terms of the Agreement.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “**THAT** the re-election of Mr. Sheng Hong as an independent non-executive director of the Company be and is hereby approved.”

By Order of the Board

Luk Sai Wai Simon

Company Secretary

Hong Kong, 25 September 2010

Notes:

- (1) A form of proxy for use at the EGM or any adjournment thereof is enclosed.
- (2) Any member entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company.
- (3) In order to be valid, the form of proxy completed in accordance with the instructions set out therein, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of that power or authority) must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.
- (4) In case of joint holders of any share, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders are present at the meeting in person or by proxy, then one of the said persons to present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.