



天合化工集團有限公司 TIANHE CHEMICALS GROUP LIMITED

(Incorporated in the British Virgin Islands with Limited Liability)

Stock Code : 1619

Global Offering



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IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



TIANHE CHEMICALS GROUP LIMITED

天合化工集團有限公司

(Incorporated in the British Virgin Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 2,817,264,000 Shares (comprising 2,043,000,000 New Shares and 774,264,000 Sale Shares, subject to the Over-allotment Option)

Number of Hong Kong Offer Shares : 281,728,000 Shares (subject to adjustment)

Number of International Offer Shares : 2,535,536,000 Shares (comprising 1,761,272,000 New Shares and 774,264,000 Sale Shares, subject to adjustment and the Over-allotment Option)

Maximum Offer Price : HK\$2.25 per Share plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)

Nominal value : US\$0.000001 per Share

Stock code : 1619

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Hong Kong Exchanges and Clearing Limited, the Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection" has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) on the Price Determination Date or such later date as may be agreed by our Company and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) but in any event no later than June 18, 2014. The Offer Price will be not more than HK\$2.25 per Offer Share and is expected to be not less than HK\$1.75 per Offer Share, unless otherwise announced.

The Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Underwriters) may, with our Company's consent, reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares being offered at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, a notice of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at <http://www.tianhechem.com>. Further details are set out in "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) and our Company on or before June 18, 2014, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in "Risk Factors".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination".

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except that Offer Shares may be offered, sold or delivered to (i) Qualified Institutional Buyers in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A, or another available exemption from registration under the U.S. Securities Act and (ii) outside the United States in accordance with Regulation S.

June 9, 2014

EXPECTED TIMETABLE⁽¹⁾

Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Thursday, June 12, 2014
Application lists open ⁽³⁾	11:45 a.m. on Thursday, June 12, 2014
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Thursday, June 12, 2014
Latest time for completing payment of WHITE Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, June 12, 2014
Latest time for giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Thursday, June 12, 2014
Application lists close ⁽³⁾	12:00 noon on Thursday, June 12, 2014
Expected Price Determination Date ⁽⁵⁾	Friday, June 13, 2014
(1) Announcement of the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on	Thursday, June 19, 2014
(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for the Hong Kong Offer Shares—11. Publication of Results" in this prospectus	Thursday, June 19, 2014
(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company's website at www.tianhechem.com from	Thursday, June 19, 2014
Results of allocations in the Hong Kong Public Offering will be available at www.iporeresults.com.hk with a "search by ID" function from	Thursday, June 19, 2014
Dispatch of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before ⁽⁷⁾⁽⁹⁾	Thursday, June 19, 2014
Dispatch of refund cheques and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before ⁽⁸⁾⁽⁹⁾	Thursday, June 19, 2014
Dealings in the Shares on the Hong Kong Stock Exchange expected to commence on	Friday, June 20, 2014

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, June 12, 2014, the application lists will not open or close on that day. See “How to Apply for the Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for the Hong Kong Offer Shares—6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Friday, June 13, 2014 and, in any event, not later than Wednesday, June 18, 2014. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) and us by Wednesday, June 18, 2014, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates will only become valid at 8:00 a.m. on Friday, June 20, 2014 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting—Underwriting Arrangements and Expenses—The Hong Kong Public Offering—Grounds for Termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.
- (9) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO service** for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Thursday, June 19, 2014 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who is eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations which is eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation’s chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.
Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants’ stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares—14. Dispatch/Collection of Share Certificates and Refund Monies—Personal Collection—(iv) If you apply via Electronic Application Instructions to HKSCC” in this prospectus for details.
Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to that bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.
Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.
Further information is set out in the sections headed “How to Apply for the Hong Kong Offer Shares—13. Refund of Application Monies” and “How to Apply for the Hong Kong Offer Shares—14. Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus.

The above expected timetable is a summary only. You should refer to the sections headed “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering and the procedures for application for the Hong Kong Offer Shares.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Tianhe Chemicals Group Limited, solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdiction pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us. Information contained in our website, located at www.tianhechem.com, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in “Risk Factors” on page 34. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading specialty chemicals producer with its headquarters in the PRC. We have two principal business segments, namely, lubricant additives and specialty fluorochemicals. According to Frost & Sullivan, in 2013, we were the largest lubricant additives producer headquartered in the PRC and the sixth largest lubricant additives producer in the world in terms of revenue and one of only five comprehensive multi-line lubricant additives manufacturers in the world. According to Frost & Sullivan, in 2013, we were also the largest specialty fluorochemicals producer headquartered in the PRC in terms of revenue.

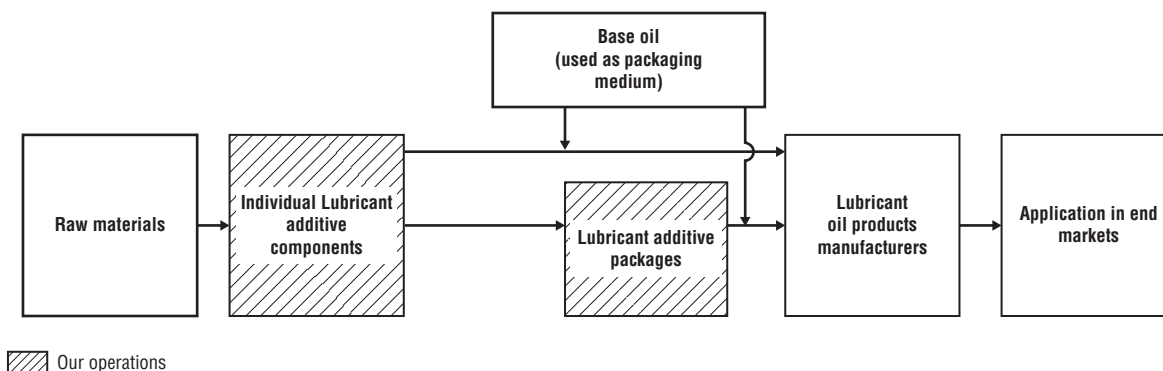
We believe our success can be attributed to our technological advantages. According to Frost & Sullivan, our lubricant additives product portfolio was among the most comprehensive in the PRC and we were the only company headquartered in the PRC capable of producing long-chain linear alkyl benzene sulphonic acid, which is an important raw material for high-grade lubricant additives due to its superior chemical features as it can enhance the lubricant additives’ acid neutralizing ability, detergency and dispersion effects and anti-rust performance. In addition to that, long-chain linear alkyl benzene sulphonic acid also possesses good thermal stability, oil solubility, anti-foam and water-repellent properties, all of which are important for enhancing the performance of lubricant additives. According to Frost & Sullivan, we are the only company worldwide that has developed the expertise in telomerization technology under moderate temperature and pressure, resulting in a safer production process and lower production costs, as compared to the traditional specialty fluorochemicals production process. In addition, according to Frost & Sullivan, we are capable of producing specialty fluorochemicals through a PFOA- and PFOS-free process. This enables us to capitalize on the opportunities in light of the increasingly stringent enforcement of global regulation against PFOA and PFOS, which are both environmentally hazardous contaminants.

Lubricant Additives Segment

We produce and sell a broad range of individual lubricant additive components and lubricant additive packages. Each individual lubricant additive component generally only addresses one or a few aspects of performances that are critical to the performance of lubricants and functional fluids. On this basis, we categorize our individual lubricant additive components as detergent products, ashless dispersant products, corrosion inhibitors, extreme pressure anti-wear additives, antioxidant products and pour point depressants. We produce lubricant additive packages through blending one or more individual lubricant additive components with different types of base oil to optimize the performance of the package and achieve the specific requirements. Our lubricant additives are used by lubricant manufacturers to produce downstream industrial or commercial lubricant oil products which are used in a broad range of industries, including engine oil of automobiles, ships and turbines, gear oil and anti-wear hydraulic oil. For detailed description of our lubricant additives segment, please see the section headed “Business — Business and Products — Lubricant Additives Segment.”

SUMMARY

The following table sets forth the simplified lubricant additives value chain and our operations therein.



As of December 31, 2013, we were capable of producing 93 lubricant additives, including 59 types of individual lubricant additive components and 34 lubricant additive packages. According to Frost & Sullivan, we have the most comprehensive product portfolio in the PRC. In addition, as of the Latest Practicable Date, our in-house R&D department was in the process of developing 29 new lubricant additives and six types of fluorinated lubricant additives. In particular, according to Frost & Sullivan, we are the only company headquartered in the PRC capable of producing long-chain linear alkyl benzene sulphonic acid, which is an important raw material for high-grade lubricant additives due to its superior chemical features as it can enhance the lubricant additives' acid neutralizing ability, detergency and dispersion effects and anti-rust performance. In addition to that, long-chain linear alkyl benzene sulphonic acid also possesses good thermal stability, oil solubility, anti-foam and water-repellent properties, all of which are important for enhancing the performance of lubricant additives. For further information about our R&D strategy, please see the section headed "Business — Research and Development."

Our customers are leading global lubricant producers. We have passed stringent qualification processes set by these customers in order to become their approved suppliers. For instance, we have been qualified and have been supplying products to CNPC and Sinopec (and their subsidiaries) since the inception of our Company. Building on our experience as long-standing suppliers to CNPC and Sinopec (and their subsidiaries), our strong R&D capabilities, sound quality control system, in-depth knowledge in the industry and proven track record of compliance with applicable environment, health and safety regulations, we have also successfully passed rigorous certification processes set forth by other leading multinational lubricant manufacturers to supply products to them, including Total, JX Nippon Oil & Energy and a multinational lubricant manufacturer in Europe.

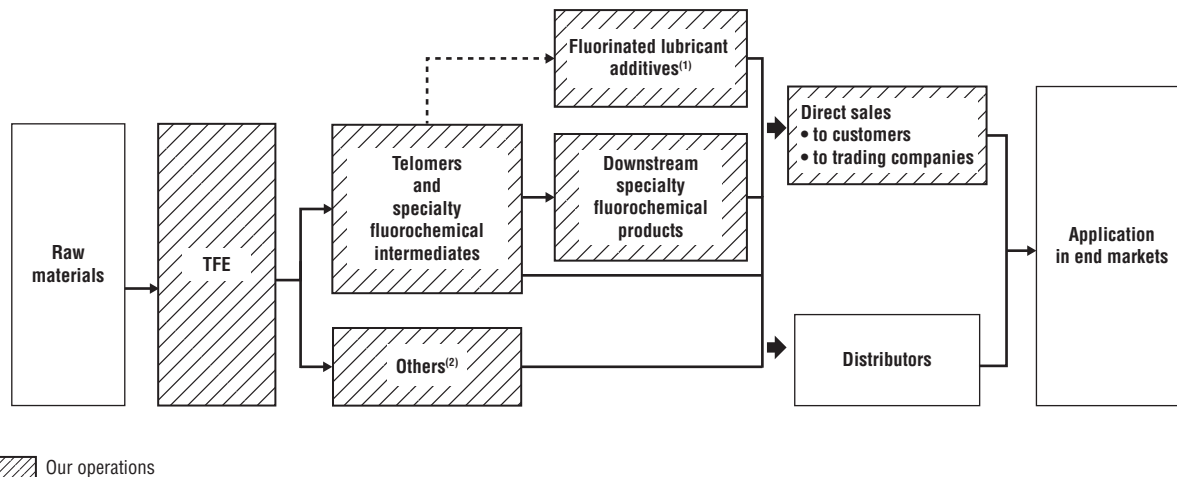
Specialty Fluorochemicals Segment

We produce and sell a broad range of specialty fluorochemicals to our customers. These are used to improve the performance of a large spectrum of their products in the textiles, electronics, coatings, automobiles, pharmaceuticals, agricultural, optical and other industries. We categorize our specialty fluorochemicals as (i) downstream specialty fluorochemical products, such as different types of surface protectant and fluorochemical surfactants; (ii) telomers and specialty fluorochemical intermediates, such as TI, TEI, TEAc and TEOH, which are precursors to other specialty fluorochemical products; and (iii) a small number of other products, including HFE and PTFE. For a further description of our specialty fluorochemical products, please see the section headed

SUMMARY

“Business — Business and Products — Specialty Fluorochemicals Segment — Our Specialty Fluorochemical Products.”

The following table sets forth the business flow of the specialty fluorochemicals industry and our operations therein.



Notes:

(1) Plant is expected to commence operation in late 2015

(2) Mainly include HFE and PTFE. For a description of our specialty fluorochemical products, please see the section headed “Business — Business and Products — Specialty Fluorochemicals Segment — Our Specialty Fluorochemical Products.”

As of December 31, 2013, we were capable of producing over 160 types of specialty fluorochemical products. In addition, as of the Latest Practicable Date, our in-house R&D department was developing 15 types of downstream specialty fluorochemical products. Since 2011, through our in-house R&D efforts, we have developed and commercialized 11 types of downstream specialty fluorochemical products for production. For more detailed description of our R&D projects, please see the section headed “Business — Research and Development.”

In the specialty fluorochemicals segment, we sell our products to manufacturers of downstream specialty fluorochemicals, for use in the manufacture of other downstream products. We also sell our products to trading companies, including a subsidiary of one of the largest conglomerates in China, which then resell our products to their clients in the PRC and overseas market. Through years of efforts and leveraging our advanced manufacturing technologies, we have successfully established our premium market recognition in the industry. We have also steadily expanded our customer base, especially to multinational specialty fluorochemical producers. In addition, in line with our marketing strategy for the overseas market, we engaged an exclusive distributor in September 2013 to distribute our products in North America, Latin America and select European countries. For details about our marketing and promotion activities, please see the section headed “Business — Sales, Marketing and Customers.”

RESEARCH AND DEVELOPMENT

We believe that R&D is critical to our strategy to establish ourselves as a leader in product innovation in the specialty chemicals industry. We are committed to developing new products and processes, as well as improving existing products and processes. We are also focused on identifying the most cost-efficient way to create packages that deliver performances that meet our customers’

SUMMARY

expectations. We also invest in the analysis and prediction of customers' preferences and market trends in the specialty chemicals industry, and we adjust our overall R&D plan and/or specific R&D project accordingly. Our R&D focuses on process know-how and leverages the expertise of our highly skilled team of scientists.

For our lubricant additives segment, we have successfully developed many products with attributes requested by our customers, and through this interaction we managed to enhance our relationships with these customers and enter into new markets. For our specialty fluorochemicals segment, through our in-house R&D efforts, we have introduced 11 types of downstream specialty fluorochemical products into commercial production during the Track Record Period. We introduced four of these products in 2011 and the remaining seven in 2013. In addition, we have a proven record of working together with our customers in response to their requirements to improve the performance of our types of downstream specialty fluorochemical products and to develop alternative types of downstream specialty fluorochemical products with compatible functions. These achievements led to increased sales of high revenue generating products. We also plan to capitalize on our fluorochemicals capabilities by providing fluorinated lubricant additives in the near future. We continuously seek to develop or improve products and processes to meet customer demands and to improve the performance of certain products. For details about our R&D activities, please see the section headed "Business — Research and Development."

PRODUCTION FACILITIES

As of the Latest Practicable Date, we had three production facilities in operation in Liaoning Province. These facilities had an aggregate designed production capacity of 199,000 tonnes of lubricant additives and 6,900 tonnes of specialty fluorochemicals per year. We are in the process of expanding our production capacity at our existing facilities and are also constructing two new plants in Jinzhou city, Liaoning Province and Qinzhou city, Guangxi Province, respectively. We purchase manufacturing equipment primarily from major suppliers in China. The key equipment we use for our production are different types of reaction kettles and chemical containers. To meet the requirements of our production processes, we rely on our in-house R&D team to design the relevant equipment. The manufacture, assembly and installation of such equipment and their installation plan are handled by external equipment suppliers. For details about our manufacturing facilities and equipment as well as our overall capacity utilization rate, please see the section headed "Business — Manufacturing."

SALES, MARKETING AND CUSTOMERS

We consider marketing and business promotion to be key to our success and sustainable development. Our key marketing strategy is to promote our quality products, offer competitive pricing and provide quality after-sale services. We had a dedicated sales and marketing team, comprising 20 members as of December 31, 2013, of whom 12 were responsible for sales of lubricant additives and eight were in charge of sales of specialty fluorochemical products. Our sales and marketing team is responsible for introducing our products and their specifications and attributes to customers as well as collecting customers' specialized requests for performance and feedback on our products.

During the Track Record Period, we primarily sold our products through our sales team to end users who use our products for further production, or trading companies who resell such products. In line with our marketing strategy for the overseas markets, we engaged an exclusive distributor in

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September 2013 to expand into overseas regions. For details about our sales channels, please see the section headed “Business — Sales, Marketing and Customers.”

For details about our sales and marketing activities, please see the section headed “Business — Sales, Marketing and Customers.” Please also see the section headed “Risk Factors — We have limited control over the practice and manner of sales of trading companies and our distributors.”

RAW MATERIALS AND SUPPLIERS

We purchase a wide range of raw materials from suppliers for our production of lubricant additives and specialty fluorochemical products. The key raw materials we purchase for the production of lubricant additives include polyisobutylene, paracresol, and isobutylene. We also purchase base oil (a derivative of crude oil) as a packaging medium for our lubricant additives. The key raw materials for the production of specialty fluorochemicals are I₂ (iodine), IF₅, R-22 and SbF₅. All of the raw materials can be purchased either domestically or imported and are widely available.

We typically enter into one-year contracts with major suppliers for both our lubricant additives and specialty fluorochemicals segments. The contracts will set out the specification of goods, delivery method, packing standards, pricing and payment terms. The prices of raw materials are usually dictated by the market and may fluctuate from time to time. Accordingly, we generally agree to re-negotiate prices on a monthly basis with our suppliers. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material dispute with any of our suppliers, nor have we experienced any material difficulty procuring raw materials for our production.

COMPETITIVE STRENGTHS

- We are the leading specialty chemicals producer with its headquarters in the PRC focusing on the high growth and high margin markets of lubricant additives and specialty fluorochemical products.
- We are well positioned to benefit from the attractive outlook, especially in the PRC, for the lubricant additives and specialty fluorochemicals industries, which are highly structured and have substantial entry barriers.
- We have strong R&D capabilities with a track record of developing and commercializing innovative products and processes.
- We have industry-leading production practices, combining proprietary technologies with flexible operations.
- We have established strong relationships with major global and domestic PRC customers.
- We have a proven track record of growth and profitability, generating significant operating cash flow.
- We have a highly experienced management team, and strong corporate governance.

DEVELOPMENT STRATEGIES

- Expand production capacity in the PRC to capitalize on the strong demand for our products.
- Invest in R&D projects to expand our current product offering of high revenue generating products.

SUMMARY

- Increase penetration of overseas markets based on superior product offering, partnership with international players, and building of capacity, R&D centers and sales force in selected international markets.
- Increase efficiencies and reduce costs in our existing operations to further increase margins through process innovations.
- Expand through targeted acquisitions, joint ventures and partnerships with the goal of improving our technology and supplementing the offerings of our business.

INTELLECTUAL PROPERTY RIGHTS

We rely on a combination of trade secrets, patents and trademarks to protect the technological innovations developed by our R&D team and the goodwill generated by our Group. Besides trade secrets, as of the Latest Practicable Date, we owned 25 patents and had five patent applications in the PRC. We have adopted measures to protect our intellectual property rights, including trade secrets and other proprietary know-how. For details about our intellectual property rights, please see the section headed “Business — Intellectual Property Rights.”

ENVIRONMENT, HEALTH AND SAFETY

We strive to ensure that our operations are in compliance with the applicable industry standards, particularly those governing the production and storage of certain hazardous chemicals and materials. We have established quality, environmental, occupational health and safety, or QHSE, management systems and procedures according to relevant laws and regulations. In particular, we have established a three tiered management structure with respect to environmental, health and safety issues, with our vice president, being the head of our energy and environmental department at our headquarters, to oversee and supervise the overall direction and make critical decisions in case of emergency. All of our production facilities and employees are required to adhere strictly to the principles of safety code outlined by our safety department. In addition, we have implemented infrastructure and safety policies to ensure equipment safety, to prevent or minimize community exposure to hazardous materials, and to avoid exacerbation of natural hazards, such as landslides or floods. As of the Latest Practicable Date, we have not received any notifications or warnings nor have we been subject to any fines or penalties in relation to any breach of any applicable environmental laws or regulations which has materially adversely affected our production. We have also adopted a series of measures to ensure safe production. During the Track Record Period and up to the Latest Practicable Date, there has not been any material injury or fatality at any of our production facilities. For details about our safety measures, please see the section headed “Business — Environment, Health and Safety.”

QUALITY CONTROL

We have a quality control department which consisted of 64 professionals as of the Latest Practicable Date. We have maintained a quality control system for each segment of production cycle ranging from raw material supply to manufacturing, and a successful delivery track record and provide quality after-sale services. We have also passed ISO9001 standard for our qualification control system. Based on these quality control measures, we have kept qualification rate of our final products at 100% since 2001. During the Track Record Period and up to the Latest Practicable Date, we have never experienced any return of goods or dispute with our customers due to quality of our products that may have a material adverse impact to our business operations.

SUMMARY

RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We believe a few of the more significant risks relating to our business are as follows:

- We sold a substantial volume of our lubricant additives and specialty fluorochemical products to a limited number of customers and any decrease in our sales to any of them would affect our financial results.
- We rely on trade secrets and proprietary technology and processes and any unauthorized disclosure of them could adversely affect our business.
- A significant portion of our specialty fluorochemical products are sold to trading companies and any failure to maintain the relationship with these trading companies or find competent replacements could affect the sales of our products.
- We are required to comply with various environmental, health and safety laws, which are extensive and the compliance of which may be onerous or expensive.
- Failure to develop or market new products and manage product life cycles could impact our competitive position and have an adverse effect on our operational and financial condition.
- Our continued growth depends on our ability to retain or recruit highly skilled and qualified scientists. The loss of any key personnel, or the failure to recruit, train and retain additional skilled personnel, could negatively impact our ability to continue to offer customized products to our customers, develop innovative new products or continue our production and research.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

You should read this subsection in conjunction with our consolidated financial information for the three years ended December 31, 2013, included in the Accountants' Reports set out in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS.

Summary Consolidated Income Statement

	For the year ended December 31,			2011-12	2012-13
	2011	2012	2013	YoY%	YoY%
	<i>(RMB in thousands)</i>			<i>(%)</i>	<i>(%)</i>
Revenue	3,359,368	4,192,553	5,033,795	24.8	20.1
Cost of sales	<u>(1,869,454)</u>	<u>(1,651,300)</u>	<u>(1,986,805)</u>	<u>(11.7)</u>	<u>20.3</u>
Gross profit	<u>1,489,914</u>	<u>2,541,253</u>	<u>3,046,990</u>	<u>70.6</u>	<u>19.9</u>
Profit before taxation	<u>1,164,220</u>	<u>2,553,656</u>	<u>3,100,407</u>	<u>119.3</u>	<u>21.4</u>
Income tax expenses	<u>(216,109)</u>	<u>(363,692)</u>	<u>(474,178)</u>	<u>68.3</u>	<u>30.4</u>
Profit and total comprehensive income for the year attributable to the owners of the Company	<u>948,111</u>	<u>2,189,964</u>	<u>2,626,229</u>	<u>131.0</u>	<u>19.9</u>

During the Track Record Period, our overall gross profit margin was 44.4%, 60.6% and 60.5%, respectively, the gross profit margin for our lubricant additives business segment was 25.1%, 26.8% and 27.0%, respectively, and for our specialty fluorochemicals business segment was 67.0%, 85.4% and 83.8%, respectively.

SUMMARY

Summary Consolidated Statements of Financial Position

	As of December 31,			As of
	2011	2012	2013	April 30, 2014
	<i>(RMB in thousands)</i>			
Total current assets	1,078,512	1,643,562	2,971,797	2,894,583
Total current liabilities	1,812,456	2,405,232	2,864,494	3,698,957
Net current (liabilities)/assets	(733,944)	(761,670)	107,303	(804,374)

For details about our net current assets or net current liabilities, please see the section headed “Risk Factors — Risks Relating to Our Business — We recorded net current liabilities during the Track Record Period and may record net current liabilities in the future.”

Summary Consolidated Cash Flow Statements

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Net cash generated from operating activities	1,196,206	2,146,779	2,485,634
Net cash used in investing activities	(1,566,086)	(2,837,810)	(2,135,038)
Net cash (used in)/generated from financing activities	(18,405)	519,968	380,508
Net (decrease)/increase in cash and cash equivalents	(388,285)	(171,063)	731,104
Cash and cash equivalents at beginning of year	814,113	425,717	254,634
Effect of foreign exchange rate changes	(111)	(20)	(906)
Cash and cash equivalents at end of the year	425,717	254,634	984,832

Key Financial Ratios

The table below sets forth our key financial ratios as of the dates and for the years indicated:

	As of and for the year ended December 31,		
	2011	2012	2013
EBITDA margin (%) ⁽¹⁾	47.3	62.4	63.0
Net profit margin (%) ⁽²⁾	28.2	52.2	52.2
Gearing ratio (%) ⁽³⁾	65.8	48.2	34.3
Net debt to equity ratio (%) ⁽⁴⁾	49.1	31.4	15.0
Interest coverage ratio ⁽⁵⁾	81.1	44.8	47.4
Return on total assets (%) ⁽⁶⁾	20.8	30.0	25.2
Return on equity (%) ⁽⁷⁾	35.9	45.4	35.2
Current ratio ⁽⁸⁾	0.6	0.7	1.0

Notes:

- (1) EBITDA margin is calculated by dividing EBITDA by revenue. EBITDA equals to the sum of (i) EBIT, (ii) depreciation, (iii) release of prepaid lease payments, and (iv) amortization of intangible assets. EBIT equals to the sum of (i) profit before taxation, (ii) finance cost and (iii) loss on disposal of marine fuel assets, minus interest income. We present EBITDA margin in certain tables and discussions in this prospectus in addition to other financial information because we consider EBITDA margin to be an important performance measure and we believe that EBITDA margin is commonly used by investors and others in assessing the financial performance of companies in our industry. EBITDA margin is not a standard measure under IFRS and should not be used as a substitute for operating margin, net income, cash flows, or other data prepared in accordance with generally accepted accounting principles as a measure of our profitability or liquidity. Our calculation of EBITDA margin may differ from similarly titled computations of other companies.
- (2) Net profit margin is calculated by dividing net profit attributable to owners of the Company by revenue.
- (3) Gearing ratio is calculated by dividing total debt by total equity. Total debt equals the sum of bank borrowings and shareholder’s loans.
- (4) Net debt to equity ratio is calculated dividing net debt by total equity at the end of the respective period. Net debt equals total debt minus the sum of (i) cash and cash equivalents and (ii) bank deposits.

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- (5) Interest coverage is calculated by dividing EBIT by finance costs.
 (6) Return on total assets is calculated by dividing net profit attributable to owners of the Company by total assets at the end of the respective period.
 (7) Return on equity is calculated by dividing net profit attributable to owners of the Company by total equity at the end of the respective period.
 (8) Current ratio is calculated by dividing current assets by current liabilities.

KEY FINANCIAL INFORMATION FOR SEGMENTS

The following table sets forth details of revenue derived from each business segment in the Track Record Period.

	For the year ended December 31,								
	2011			2012			2013		
	<i>(RMB in thousands)</i>	Sales volume	Average selling price	<i>(RMB in thousands)</i>	Sales volume	Average selling price	<i>(RMB in thousands)</i>	Sales volume	Average selling price
		<i>(RMB in thousands/tonne)</i>			<i>(RMB in thousands/tonne)</i>			<i>(RMB in thousands/tonne)</i>	
Revenue									
Lubricant additives business segment	1,817,006	110,757	16.4	1,774,503	108,660	16.3	2,063,112	128,233	16.1
Specialty fluorochemicals business segment	1,542,362			2,418,050			2,970,683		
Downstream specialty fluorochemical products	289,815	15	19,987.2	1,343,050	64	21,034.5	1,702,353	88	19,294.5
Telomers and specialty fluorochemical intermediates	1,101,726	908	1,213.2	994,591	914	1,088.4	1,198,412	1,399	856.4
Others ⁽¹⁾	150,821	1,428	105.6	80,409	1,278	62.9	69,918	1,571	44.5
Total	3,359,368			4,192,553			5,033,795		

Note:

- (1) Mainly include HFE and PTFE. For a description of our specialty fluorochemical products, please see the section headed "Business — Business and Products — Specialty Fluorochemicals Segment — Our Specialty Fluorochemical Products."

RECENT DEVELOPMENTS

For the three months ended March 31, 2014, our revenue increased to RMB1,189.3 million, representing an increase of 41.2%, from RMB842.3 million for the three months ended March 31, 2013, primarily because of the increase in revenue from the specialty fluorochemicals business segment, which constituted 62.5% of our total revenue for the three months ended March 31, 2014, compared to 51.8% for the three months ended March 31, 2013. Revenue from our lubricant additives business segment for the three months ended March 31, 2014 increased to RMB446.1 million, or by 9.8%, from RMB406.1 million for the three months ended March 31, 2013, primarily because of increased sales volume of lubricant additives as a result of the increase in our production capacity to meet growing demand for our products. Revenue from our specialty fluorochemicals business segment for the three months ended March 31, 2014 increased to RMB743.2 million, or by 70.4%, from RMB436.1 million for the three months ended March 31, 2013, primarily because of increased sales volume of downstream specialty fluorochemical products, particularly certain high revenue generating products we introduced in 2013.

Our total gross profit for the three months ended March 31, 2014 was RMB707.6 million, as compared to RMB459.6 million for the three months ended March 31, 2013, representing an increase of RMB248.0 million, or 54.0%, while our overall gross margin increased to 59.5% for the three months ended March 31, 2014 from 54.6% for the three months ended March 31, 2013, primarily due to the

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increase of sales of downstream specialty fluorochemical products as a proportion of our total sales as a result of our efforts to increase sales of high revenue generating products. The financial information as of and for the three months ended March 31, 2014 as shown above was extracted from the unaudited condensed consolidated financial statements of the Group for the three months ended March 31, 2014 prepared by the Directors in accordance with IAS 34 “Interim Financial Reporting”, which were reviewed by Deloitte Touche Tohmatsu, the reporting accountants of the Company, in accordance with ISRE 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. The comparative financial information as of and for the three months ended March 31, 2013 has not been reviewed.

Our gross profit for our lubricant additives business segment increased to RMB115.1 million for the three months ended March 31, 2014 from RMB104.3 million for the three months ended March 31, 2013, representing an increase of 10.4%, primarily because of the increase in sales of extreme pressure anti-wear additives that we commenced commercial production in late 2013. Our gross margin of lubricant additives business segment remained stable (25.8% for the three months ended March 31, 2014 and 25.7% for the three months ended March 31, 2013). The gross profit for our specialty fluorochemicals business segment increased to RMB592.5 million for the three months ended March 31, 2014 from RMB355.3 million for the three months ended March 31, 2013, representing an increase of 66.8%, primarily due to the increased sales of high revenue generating specialty fluorochemical products we introduced in 2013. The gross margin for our specialty fluorochemicals business segment decreased from 81.5% for the three months ended March 31, 2013 to 79.7% for the three months ended March 31, 2014, primarily due to the increase in sales of upstream telomers and specialty fluorochemical intermediates, such as TI and TEI.

On March 5, 2014, our Company declared a non-recurring dividend of approximately RMB810.0 million (net of withholding tax) out of our distributable reserves to our sole Shareholder as of the record date, Driven Goal. We made full payment of this dividend on April 4, 2014, utilizing the proceeds of an offshore bank loan secured by a pledge over our onshore funds. For details, please see the section headed “Financial Information — Indebtedness”. Investors in the Global Offering will become our Shareholders after the declaration of dividend, and accordingly, they will not be entitled to this dividend.

In March 2014, we received the total purchase price of our marine fuel assets. Due to the transfer of marine fuel assets to Jinzhou Heisenberg, we incurred a disposal loss of RMB283.1 million in 2011. For a further discussion about the sale of our marine fuel assets, please see the section headed “Financial Information — Results of Operations — Year ended December 31, 2012 compared with year ended December 31, 2011” and “Financial Information — Related Party Transactions”.

As of April 30, 2014, the latest practicable date for our indebtedness statement, we had total banking credit facilities of approximately RMB1,760.0 million, of which approximately RMB374.4 million was unutilized and unrestricted.

Our Directors confirm that since December 31, 2013 and up to the date of this prospectus, there has been no material adverse change in the financial position or prospects of our Group and there is no event which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report set forth in Appendix I to this prospectus.

SUMMARY

LISTING EXPENSES

The total amount of listing expenses, commissions and the maximum incentive fee (if any), together with SFC transaction levy and Stock Exchange trading fee that will be borne by us in connection with the Global Offering is estimated to be approximately HK\$214.6 million (based on the mid-point of our indicative price range for the Global Offering), of which approximately HK\$122.9 million is expected to be capitalized after the Listing. The remaining listing expenses in the amount of approximately HK\$91.7 million is expected to be charged to our income statement.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$2.00 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$3,917.8 million, after deduction of underwriting fees and commissions and estimated expenses payable in connection with the Global Offering. We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 30.3%, or HK\$1,186.3 million, will be used for the development of lubricant additives and fluorinated lubricant additives;
- approximately 30.3%, or HK\$1,187.5 million, will be used for the development of specialty fluorochemical products; and
- approximately 39.4%, or HK\$1,544.0 million, will be used for repayment of the shareholder's loans granted to us by Driven Goal.

The above allocation of proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range. For details about the use of proceeds, please see the section headed "Future Plans and Use of Proceeds."

OFFERING STATISTICS

All statistics in this table are based on the assumptions that the Over-allotment Option is not exercised.

	Based on an Offer Price of HK\$1.75 per Share	Based on an Offer Price of HK\$2.25 per Share
Market capitalization ⁽¹⁾	HK\$44,683 million	HK\$57,449 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$0.49	HK\$0.53

Notes:

(1) The calculation of market capitalization is based on 25,533,000,000 Shares expected to be issued and outstanding following the Global Offering.

(2) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the section entitled "Financial Information — Unaudited Pro Forma Adjusted Net Tangible Assets" of this prospectus and on the basis of 25,533,000,000 Shares in issue at the respective Offer Prices of HK\$1.75 per Share and HK\$2.25 per Share.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. The payment and the amount of any dividends will be at the discretion of our Board and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutive documents, including our

SUMMARY

Articles of Association, the Companies Act as well as (where required) the approval of Shareholders. You should note that historical dividend distributions are not indicative of our future dividend distribution policy. Subject to the foregoing factors, we expect that the profits distributed in cash each year will be no less than 25% of the distributable profits for that year. We cannot assure you, however, that we will be able to declare or distribute dividends in any amount each year or in any year. The declaration and payment of dividends may be limited by legal restrictions or financing arrangements that we may enter into in the future.

EMPLOYMENT OF CHIEF EXECUTIVE OFFICER'S FAMILY MEMBER IN UBS

We noted that there was media coverage in relation to the employment of an immediate family member of our Chief Executive Officer and Executive Director in UBS. This family member has been an employee in the equity capital markets division of UBS AG, Hong Kong Branch since October 2013. Our Company went through a vigorous process in the selection of the sponsors and underwriters to the Global Offering from late 2012 to October 2013, and the Joint Sponsors and Underwriters were selected based on their track record in handling initial public offerings in Hong Kong, their industry experiences, their marketing and distribution capability, and the commercial terms offered by them. All the Joint Sponsors were formally appointed in January 2014. The aforementioned family member has never been involved in the management of our Group or in the Global Offering (including the selection of sponsors and underwriters), and therefore our Company does not believe such employment would affect the independence of UBS Securities Hong Kong Limited as a Joint Sponsor. We have not authorized any such press and media reports. Please also see the section headed “Underwriting — Sponsor’s Independence”.

OUR CONTROLLING SHAREHOLDERS AND PRE-IPO INVESTORS

Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), our Controlling Shareholders will own 64.576% of the total issued share capital of our Company. From January 2010 to November 2013, funds were raised from the Pre-IPO Investors who are independent third parties by the issuance of exchangeable loans, convertible preferred shares, exchangeable bonds and warrants by Driven Goal and Gain Elite (the “**Convertible Instruments**”). The Pre-IPO Investors (other than the warrant holders) will convert or exchange their Convertible Instruments into our Shares immediately prior to the Listing. Immediately following the Convertible Instruments having been converted or exchanged in full and the completion of the Global Offering (assuming the Over-allotment Option is not exercised), the Pre-IPO Investors will hold in aggregate approximately 16.382% of our total issued Shares. The warrant holders have elected for cash settlement for their investments in lieu of receiving Shares. All the special rights enjoyed by the Pre-IPO Investors pertaining to our Group will fall away upon full conversion or exchange of the Convertible Instruments immediately before the Listing. For detailed description of the Convertible Instruments, please see the section headed “Our History and Corporate Structure — Pre-IPO Investors of Our Group” and Appendix III to this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

“3M”	3M Company, a specialty fluorochemicals manufacturer, one of our competitors and an independent third party
“Advanced Grade”	Advanced Grade International Limited, a company incorporated in BVI with limited liability on January 5, 2007, and a direct wholly-owned subsidiary of our Company
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Arkema”	Arkema Group, a leading specialty chemicals and advanced materials company, one of our competitors and an independent third party
“Articles of Association” or “Articles”	the articles of association of our Company which shall become effective upon registration by BVI Registry of Corporate Affairs of the British Virgin Islands immediately prior to the Listing, and as amended from time to time, a summary of which is contained in Appendix IV to this prospectus
“Asahi Glass”	Asahi Glass Co. Ltd., one of Japanese largest flat glass producing companies in the world, one of our competitors and an independent third party
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“BASF”	BASF Corporation, a world leading chemical company, one of our competitors and an independent third party
“Board of Directors” or “Board”	the board of directors of our Company
“BOCI”	BOCI Leveraged & Structured Finance Limited, a company incorporated in Hong Kong with limited liability and wholly owned by Bank of China Limited, and one of the Pre-IPO Investors
“business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“Capitalization Issue”	the issue of Shares made by capitalizing part of the reserve of our Company referred to in the section headed

DEFINITIONS

	“Statutory and General Information — A. Further Information about our Company and our Subsidiaries — 3. Resolutions in Writing of the Sole Shareholder of our Company” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chemtura”	Chemtura Corporation, a global lubricant oil additives manufacturer, one of our competitors and an independent third party
“Chevron Oronite”	Chevron Oronite Company LLC, a developer, manufacturer and marketer of lubricating oils and fuels, one of our competitors and an independent third party
“China Venture”	China Venture International Development Limited (中華國際發展有限公司), a company incorporated in Hong Kong with limited liability on February 23, 2011, and an indirect wholly-owned subsidiary of our Company
“China Vision”	China Vision International Limited (中詠國際有限公司), a company incorporated in Hong Kong with limited liability on February 18, 2011, and an indirect wholly-owned subsidiary of our Company
“Clariant”	Clariant AG, a specialty chemicals company based in Switzerland, and is one of our competitors and an independent third party
“CNPC”	China National Petroleum Corporation, one of the largest oil and gas producers and suppliers in China, as well as one of the world’s major oilfield service providers and a globally reputed contractor in engineering construction, one of our customers and suppliers and an independent third party

DEFINITIONS

“CNPC Jinzhou”	CNPC Jinzhou Petrochemical Corporation, a Chinese lubricant additives producer, one of our competitors and an independent third party
“Company” or “our”, “our Company”, “we” or “us”	Tianhe Chemicals Group Limited (天合化工集團有限公司), a company incorporated in BVI with limited liability on March 8, 2007, previously known as Inspeed International Limited, and whose shareholding structure is set out in the section headed “Our History and Corporate Structure” of this prospectus
“Companies Act”	BVI Business Companies Act 2004 as amended and supplemented from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended and supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended and supplemented from time to time
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	the Wei Family, Grace Harvest, Elite Choice, MegaSky, Gain Elite, Crown Indigo and Driven Goal, being our controlling shareholders
“Convertible Instruments”	the exchangeable loans, convertible preferred shares, exchangeable bonds and warrants provided or invested by the Pre-IPO Investors in Driven Goal and Gain Elite, as described in the section headed “Our History and Corporate Structure — Pre-IPO Investors of Our Group” in this prospectus
“Crown Indigo”	Crown Indigo Company Limited, a company incorporated in BVI with limited liability on August 10, 2010 and wholly owned by Ms. Wei Xiao, and a Controlling Shareholder
“Daikin”	Daikin Industries Ltd, a Japanese diversified manufacturing company, active in air-conditioning, chemicals and hydraulic oil, one of our competitors and an independent third party
“Deed of Non-competition”	a non-competition deed entered into on May 22, 2014 between the Company (for itself and as trustee for and on behalf of its subsidiaries) and each of the Controlling Shareholders

DEFINITIONS

“Director(s)”	the director(s) of our Company
“Driven Goal”	Driven Goal Limited, a company incorporated in BVI, one of our immediate holding companies, and whose shareholding structure is set out in the section headed “Our History and Corporate Structure” of this prospectus
“DuPont”	E.I. du Pont de Nemours and Company, a specialty fluorochemicals manufacturer, one of our competitors and an independent third party
“EBITDA”	earnings before interest, taxes, depreciation and amortization equal to the sum of EBIT, depreciation, release of prepaid lease payments, and amortization of intangible assets
“EBIT”	earnings before interest and taxes equal to the sum of profit before taxation, finance costs, and loss on disposal of marine fuel assets, minus interest income
“EIT”	enterprise income tax of the PRC
“Elite Choice”	Elite Choice Properties Limited, a company incorporated in BVI with limited liability on July 3, 2013 and wholly owned by Mr. Wei Qi, and a Controlling Shareholder
“EPA”	Environmental Protection Agency, US environmental regulator
“E.U.”	the European Union
“FHT”	Fuxin Hengtong Fluoride Chemicals Co., Ltd. (阜新恒通氟化学有限公司), a company established under the laws of the PRC on August 30, 2004, and an indirect wholly-owned subsidiary of our Company
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., industry consultant engaged to prepare the industry report
“GAAP”	generally accepted accounting principles
“Gain Elite”	Gain Elite Holdings Limited, a company incorporated in BVI with limited liability on August 10, 2010, owned as to 76.2% by Elite Choice and 23.8% by Grace Harvest, our Controlling Shareholders
“Global Offering”	the Hong Kong Public Offering and the International Offering

DEFINITIONS

“Grace Harvest”	Grace Harvest Management Limited, a company incorporated in BVI with limited liability on July 18, 2013 and wholly owned by Mr. Wei Xuan, a Controlling Shareholder
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group” or “Group Company” or “Tianhe Group”	our Company and its subsidiaries
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong Offer Shares”	the 281,728,000 new Shares initially offered for subscription pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offering”	the offering by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong, as further described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the Underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 6, 2014 relating to the Hong Kong Public Offering and entered into by, among others, the Controlling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Hong Kong Underwriters and us, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Hong Kong Underwriting Agreement” in this prospectus

DEFINITIONS

“IFRS”	International Financial Reporting Standards, which include standards, amendments and interpretations issued by the International Accounting Standards Board
“independent third party(ies)”	parties which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, are independent of our Company and its connected persons
“Infineum”	Infineum International Ltd., a multi-line lubricant additives manufacturer, one of our competitors and an independent third party
“International Offer Shares”	the 2,535,536,000 Shares initially offered for subscription pursuant to the International Offering, comprising 1,761,272,000 New Shares and 774,264,000 Sale Shares subject to the Over-allotment Option and adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the conditional placing of the International Offer Shares by the International Underwriters, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the Underwriters of the International Offering that are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around June 13, 2014 by, among others, the Selling Shareholders, the Controlling Shareholders, the Joint Global Coordinators, the Joint Bookrunners, the International Underwriters and us in respect of the International Offering, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The International Offering” in this prospectus
“Investec”	Investec Bank plc, a company incorporated in the United Kingdom with limited liability and ultimately controlled by Investec plc, and one of the Pre-IPO Investors
“Jimmy Chen”	Chen Chieh-Hung (陳玠宏, previously known as 陳介宏), the Taiwan consultant
“Jinex”	Jinzhou Jinex Lubricant Additives Company Limited, a Chinese lubricant additives producer, one of our competitors and an independent third party

DEFINITIONS

“Jinzhou DPF-TH”	Jinzhou DPF-TH Chemicals Co., Ltd. (錦州惠發天合化學有限公司), a company established under the laws of the PRC on May 15, 2007, and an indirect wholly-owned subsidiary of our Company
“Jinzhou Heisenberg”	Jinzhou Heisenberg Petrochemical Equipment Technology Co., Ltd. (錦州海森堡石化裝備科技有限公司), a company established under the laws of the PRC, wholly owned by the Wei Family, and a connected person of our Company
“Jinzhou Kangtai”	Jinzhou Kangtai Lubricant Additives Co., Ltd., a Chinese lubricant additives producer, one of our competitors and an independent third party
“Jinzhou Technology Center”	The Specialty Chemicals Engineering and Technology Center of Jinzhou DPF-TH (錦州惠發天合精細化工工程技術研發中心)
“Joint Bookrunners”	Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering), Morgan Stanley & Co. International plc (in relation to the International Offering), UBS AG, Hong Kong Branch, Merrill Lynch International, Goldman Sachs (Asia) L.L.C., BOCI Asia Limited, ICBC International Capital Limited and Investec Capital Asia Limited
“Joint Global Coordinators”	Morgan Stanley Asia Limited, UBS AG, Hong Kong Branch, Merrill Lynch International and Goldman Sachs (Asia) L.L.C
“Joint Lead Managers”	Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering), Morgan Stanley & Co. International plc (in relation to the International Offering), UBS AG, Hong Kong Branch, Merrill Lynch Far East Limited (in relation to the Hong Kong Public Offering), Merrill Lynch International (in relation to the International Offering), Goldman Sachs (Asia) L.L.C., BOCI Asia Limited, ICBC International Securities Limited and Investec Capital Asia Limited
“Joint Sponsors”	Morgan Stanley Asia Limited, UBS Securities Hong Kong Limited and Merrill Lynch Far East Limited
“JX Nippon Oil & Energy”	JX Nippon Oil & Energy Corporation, a diversified Japanese company, the businesses of which includes the exploration, importation, and refining of crude oil, the manufacture and sale of petroleum, one of our customers and an independent third party

DEFINITIONS

“Lanzhou Lubrizol”	Lanzhou Lubrizol Lanlian Additive Co., Ltd., a Chinese lubricant additives producer, one of our competitors and an independent third party
“Latest Practicable Date”	May 30, 2014, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication
“Liaoning Tianhe”	Liaoning Tianhe Fine Chemicals Co., Ltd. (遼寧天合精細化工股份有限公司), a company established under the laws of the PRC, wholly owned by the Wei Family and a connected person of our Company
“LIBOR”	London Interbank Offered Rate
“Listing”	listing of the Shares on the Hong Kong Stock Exchange
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about June 20, 2014, on which our Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Lubrizol”	Lubrizol Corporation, one of the largest lubricant additives producers in the world, one of our competitors and an independent third party
“Main Board”	the Main Board of the Hong Kong Stock Exchange
“MegaSky”	MegaSky Global Limited (長天環球有限公司), a company incorporated in BVI with limited liability on August 9, 2010, wholly owned by Mr. Wei Xuan, a Controlling Shareholder
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company which shall become effective upon registration by BVI Registry of Corporate Affairs of the British Virgin Islands immediately prior to the Listing, and as amended from time to time

DEFINITIONS

“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“MSPEA”	MSPEA Specialty Chemicals Holdings Limited, a company incorporated in Cayman Islands with limited liability and controlled by Morgan Stanley Private Equity Asia III, L.P., and one of the Pre-IPO Investors
“NewMarket Afton”	NewMarket Corporation, a specialty chemicals company, one of our competitors and an independent third party
“New Shares”	the 2,043,000,000 new Shares to be issued by our Company pursuant to the Global Offering
“North China Petrochemical”	North China Petrochemical Co., Ltd. (中北石油化工有限公司), a company established under the laws of the PRC on April 27, 2010, and an indirectly wholly-owned subsidiary of our Company
“NPC”	the National People’s Congress (全國人民代表大會)
“NDRC”	the National Development and Reform Commission in China (中華人民共和國國家發展和改革委員會)
“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%), at which Hong Kong Offer Shares are to be subscribed, to be determined in the manner further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, collectively, and where relevant, together with any additional Shares which may be sold by the Over-allotment Option Grantors pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by the Over-allotment Option Grantors to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters pursuant to which the Over-allotment Option Grantors may be required to sell up to 422,588,000 Shares at the Offer Price (representing approximately 15% of the Shares initially being offered under the Global Offering) to cover over-allocation in the International Offering, the details of which are described in the section headed “Structure of the Global Offering —

DEFINITIONS

	The International Offering — Over-allotment Option” in this prospectus
“Over-allotment Option Grantors”	Driven Goal and Investec
“PAG”	PA Macro Opportunity III Limited, a company incorporated in BVI with limited liability and wholly owned by PAG Asia Loan Fund L.P., and one of the Pre-IPO Investors
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC” or “China”	the People’s Republic of China, except where the context requires otherwise excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Price Determination Agreement”	the agreement to be entered into by the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) and us on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around June 13, 2014 (Hong Kong time) on which the Price Determination Agreement is entered into but in any event no later than June 18, 2014
“Pre-IPO Investors”	BOCI, Investec, MSPEA, PAG, Victor Gloss and Victor Keen, being pre-IPO investors of our Company and each an independent third party
“Qualified Institutional Buyers” or “QIBs”	has the meaning given in Rule 144A under the US Securities Act
“Regulation S”	Regulation S under the US Securities Act
“Reorganization”	refers to the reorganization arrangement undergone by our Group in preparation for the Global Offering as described in the section headed “Our History and Corporate Structure” in this prospectus
“RMB”	Renminbi, the official currency of the PRC
“Rule 144A”	Rule 144A under the US Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (國家外匯管理局)

DEFINITIONS

“Sale Shares”	774,264,000 Shares (subject to adjustment pursuant to the exercise of the Over-allotment Option) offered for sale by the Selling Shareholders in the International Offering
“SAWS”	the State Administration of Work Safety in China (國家安全生產監督管理總局)
“SCNPC”	the Standing Committee of the National People’s Congress in China (全國人民代表大會常務委員會)
“Selling Shareholders”	Driven Goal and Jimmy Chen
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shanghai Hairun”	Shanghai Hairun Lubricant Additives Co., Ltd., a Chinese lubricant additives producer, one of our competitors and an independent third party
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of our Company with a nominal value of US\$0.000001 each, to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
“Share Option Scheme”	the share option scheme of our Company, conditionally adopted pursuant to a resolution of our sole Shareholder on May 22, 2014, the principal terms of which are summarized in the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix V to this prospectus
“Sino Asia Petrochemical”	Sino-Asia Petrochemical Technology Co., Ltd. (中亞石化科技有限公司), a company established under the laws of the PRC on April 28, 2010 and an indirectly wholly-owned subsidiary of our Company
“Sinopec”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), one of the largest integrated energy and chemical companies in China, one of our customers and an independent third party
“Solvay”	Solvay S.A., an international chemical group, one of our competitors and an independent third party
“Stabilizing Manager”	Morgan Stanley Asia Limited

DEFINITIONS

“Stock Borrowing Agreement”	a stock borrowing agreement expected to be entered into between Driven Goal and the Stabilizing Manager (or its affiliate) on or about the Price Determination Date
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	the code on Takeovers and Mergers and Share Repurchases in Hong Kong
“Tianhe Singapore”	Tianhe Services (Singapore) Pte. Ltd., a company incorporated in Singapore with limited liability on March 7, 2014, and an indirect wholly-owned subsidiary of our Company
“Tianhe Zhiye”	Jinzhou Huifa Tianhe Zhiye Co., Ltd. (錦州惠發天合置業有限公司), a company established under the laws of the PRC on March 19, 2013 and an indirectly wholly-owned subsidiary of our Company
“Total”	Total S.A., a leading global oil and gas company, incorporated in France, one of our customers and an independent third party
“TOSAIC”	the Trademark Office of the State Administration for Industry and Commerce in China (中華人民共和國國家工商行政管理總局商標局)
“Track Record Period”	comprises the financial years ended December 31, 2011, 2012 and 2013
“TurboRICH”	TurboRICH Group Limited, a company incorporated in BVI with limited liability on March 8, 2011, and a direct wholly-owned subsidiary of our Company
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States” or “US”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933 (as amended from time to time)
“US\$” or “\$”	United States dollars

DEFINITIONS

“Victor Gloss”	Victor Gloss Limited, a company incorporated in BVI with limited liability and indirectly owned by the Industrial and Commercial Bank of China Limited, and one of the Pre-IPO Investors
“Victor Keen”	Victor Keen Limited, a company incorporated in BVI with limited liability and indirectly owned by the Industrial and Commercial Bank of China Limited, and one of the Pre-IPO Investors
“Vivid Rise”	Vivid Rise Investment Limited, a company incorporated in BVI with limited liability on March 8, 2011, and a direct wholly-owned subsidiary of our Company
“Wei Family”	Mr. Wei Qi, Mr. Wei Xuan and Ms. Wei Xiao
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO <u>www.eipo.com.hk</u>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wuxi South”	Wuxi South Petroleum Additive Company, a Chinese lubricant additives producer, one of our competitors and an independent third party
“Xinjiang Land”	Xinjiang Land Fine Petrochemical Company, a Chinese lubricant additives producers, one of our competitors and an independent third party

GLOSSARY OF TECHNICAL TERMS

“12 th Five-Year Plan”	the Guiding Principle of China’s 12 th Five-Year Plan for National Economic and Social Development (中華人民共和國國民經濟和社會發展第十二個五年規劃綱要)
“Ac”	acrylate, a polymerizable group in an acrylate monomer, and acrylate monomers are used to make acrylic polymer
“anti-mar/anti-reflective coatings”	products which could be applied to surface of eye-glasses, optical lenses, touch screen of cell phone or personal computers, security equipment with fingerprint reader or other glass products to repel water, oil and other liquids from contaminating the surface of relevant products. Other names for anti-mar coatings include anti-fingerprint coatings, anti-smudge coatings, or oleophobic (oil-repelling) layers.
“antioxidant products”	products designed to decelerate the degradation of the based lubricant from oxidization, and can be used in industries such as food, rubber and metal
“ashless dispersant products”	products used to suspend contaminants that have low oil solubility in lubricants and keep them dissolved in oil, and as a result, the contaminants are prevented from coagulating and removed when the lubricant is changed
“base oil”	lubrication grade oil produced from refining crude oil (mineral base oil) or through chemical synthesis (synthetic base oil). They are typically formed by mixing several fractions from the crude oil refining process and are further refined by solvent extraction and hydrotreating to create an oil suitable for lubrication purposes, the efficacy of which can be further enhanced by the addition of lubricant additives
“BHT”	butylated hydroxytoluene, a type of antioxidant product
“C-4”	refers to TI-4 and is the intermediate to produce TEI-4, TEOH-4, TE-4, TEAc-4, TEmAc-4
“C-6”	refers to TI-6 and is the intermediate to produce TEI-6, TEOH-6, TE-6, TEAc-6, TEmAc-6
“C-8”	refers to TI-8 and is the intermediate to produce TEI-8, TEOH-8, TE-8, TeMAc-8
“CAGR”	compound annual growth rate
“CHClF ₂ ” or “HCFC-22” or “R-22” or “F-22”	monochlorodifluoromethane or chlorodifluoromethane, a product of fluorspar raw material and the starting material for the production of TFE

GLOSSARY OF TECHNICAL TERMS

“corrosion inhibitors”	products which coat the surfaces of the metal parts and form a resilient protective film, which protects metal surfaces from oxidation or corrosion of the products being lubricated
“detergent products”	products used in lubricant oils to (i) neutralize the acidic by-products of the combustion and the lubricant oxidation and (ii) to remove the particles and contaminants, which have limited solubility in oil
“engine oil additive package”	engine oil additive package is primarily used in gasoline or diesel fueled engine oil, which is designed to provide comprehensive protection to all types of engines in a variety of operating environments
“ethylene”	C_2H_4 , also known as ethene, is an unsaturated hydrocarbon which is widely used in the chemical industry
“extreme pressure anti-wear additives”	products which form extremely durable protective films by thermo-chemically reacting with the metal surfaces of material being lubricant, which keep metal surfaces from direct contact at extreme temperature or under mechanical pressure and as a result reduce the wearing process
“FCA”	fluorocarbon alcohol
“fluoro monomers”	monomer that contain fluorine and can be used to make fluoropolymers that have special properties
“fluoro telomers”	telomers (telomers are short molecules made from monomers but are not as long as polymers. Typically, telomers consist of two to 20 units of monomers and polymers consist of 20 to million units of monomers) that contain fluorine
“fluorspar”	CaF_2 , also known as fluorite, a mined product used as the source of fluorine in all fluorochemical products
“GB/T28001-2001”, “GB/T28001-2011”	occupational health and safety management system certifications
“GDP”	gross domestic product
“gear oil additive package”	There are two major groups of gear oil additive packages, namely, automobile gear oil additive packages and industrial gear oil additive packages. Automobile gear oil additive packages are designed to provide performance like friction reduction, heat removal and extreme pressure anti-wear to prevent scoring, scuffing and other types of distress

GLOSSARY OF TECHNICAL TERMS

	that can result in equipment failure and downtime. Industrial gear oil additive packages are designed to provide extreme pressure performance, rust and oxidation resistance
“GFA”	gross floor area
“GHS”	Globally Harmonized System of Classification and Labelling of Chemicals
“HFE”	hydrofluoroethers, specialty fluorochemical product produced from TFE monomer. HFE is used as blowing agents, solvents, precision cleaning agents and intermediate
“hydrolysis”	a chemical reaction in which water reacts with a compound to produce other compounds
“I ₂ (iodine)”, “SbF ₅ ”, “R-22”	key raw materials for the production of specialty fluorochemicals
“industrial lubricant additives”	depending on the components used to produce industrial lubricant additives, they perform designated functions to enhance performance of different industrial equipment and machinery
“IF ₅ ”	iodine pentafluoride, a raw material for TI
“intermediates”	chemicals that are used as raw materials to produce other chemical products
“ISO”	International Organization for Standardization
“ISO14001”	International Organization for Standardization standard for environmental management systems as enacted in 2004 and amended in 2009 and 2011
“ISO9001”	quality management systems model published by ISO for quality assurance in design, development, production, installation and servicing
“isobutylene”	raw material for the production of T321
“IT”	information technology
“KAc”	C ₃ H ₃ KO ₂ , chemical name is potassium acrylate, an intermediate chemical used to convert TEI to TEAc
“leather treatment agents”	products which could be applied to cover the surface of natural or artificial leather products to repel water, oil and other liquids from contaminating the surface of the leather products

GLOSSARY OF TECHNICAL TERMS

“long-chain linear alkyl benzene sulphonate”	a chemical compound used in the production of lubricant additives to enhance the additives’ acid neutralizing ability, detergency and dispersion effects and antirust performance
“OEM”	original equipment manufacturer, usually used when describing the manufacturers of complete vehicles such as Ford, GM, Volkswagen, Toyota, etc.
“packages”	blend of lubricant additives, formulated to deliver a required lubricant performance containing various different components such as detergents, dispersants and inhibitor etc.
“PFCA”	perfluorocarboxylic acids and their fluorocarbon derivatives
“PFOA”	perfluorooctanoic acid, an environmentally bioaccumulative man-made chemical not normally found in abundance in nature. It also includes all similar functional derivatives with perfluorinated chain length of greater than eight but less than 20 carbon atoms
“PFOS”	perfluorooctane sulphonate, an environmentally bioaccumulative man-made chemical not normally found in abundance in nature. It also includes all similar functional derivatives with perfluorinated chain length of greater than eight but less than 20 carbon atoms
“polyisobutylene”	raw material for the production of T154A
“pour point depressants”	products which permit oil to flow at low temperatures by preventing crystallization of wax at low temperatures in petroleum based fluids
“PTFE”	polytetrafluoroethylene, perfluoro-carbon resin raw material used to produce corrosion resistant fluorinated plastics and gaskets, polymer produced from TFE. Its most common trade name is Teflon®
“REACH”	Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals which is the legislation framework on chemicals of the E.U. and which came into force on June 1, 2007
“R&D”	research and development
“SP”	surface protectant, specialty fluorochemical product for treatment of textiles, documents, finished goods and paints produced from TEOH, TEAc, TE or any combination of them

GLOSSARY OF TECHNICAL TERMS

“surface protectant”	a polymer that, when applied to a surface such as stone, glass, textiles, etc., forms a protective barrier that is water and oil repellent, and this polymer mainly consists of fluorinated compounds that resist water and oil
“T321”	extreme pressure, water repellent anti-wear lubricant additive
“T809”	copolymer of high carbon alcohol esters. When added into oils, it can effectively reduce the pour point of lubrication oils and improves its fluidity at low temperature. It is a pour point depressant generally used for the lubricating oils
“TBr”	telomer Bromides, or $F(CF_2)_nBr$, where $n=4, 6, 8, 10$ or a letter such as “N” designates a mixture of chain lengths, and this product is made from perfluoroalkyl iodides (TI) and is mainly used in medical applications
“TE”	a series of chemicals used as monomers and as intermediates to produce surface protection coatings. TE is used to manufacture stain protectant textile coating produced from TEI and also used in co-monomer applications for specialty polymers
“TEAc”	perfluoroalkyl ethyl acrylates, a telomer-based monomer intermediate used to make polymers solutions for textile finishes and paint resins
“TEAc-8”	$F(CF_2)_8(CH_2)_2OC(O)CH=CH_2$, and this is an acrylate monomer containing 8 fluorinated carbons and is used to make fluorinated polyacrylic polymers with special properties
“TEBr”	telomer Ethyl Bromides, or $F(CF_2)_nCH_2CH_2Br$, where $n=4, 6, 8, 10$ or a letter such as “N” designates a mixture of chain lengths, and this product is made from perfluoroalkyl ethyl iodides (TEI) and is mainly used in medical applications
“TEI”	perfluoroalkyl ethyl iodides or telomer ethyl iodide, a product of TI and a key intermediate in the production of TE, TEAc, TEOH and TESH
“telomerization”	process by which TFE is used to create TI
“TEmAc”	perfluoroalkyl Ethyl Methacrylates, or $F(CF_2)_n(CH_2)_2OC(O)C(CH_3)=CH_2$, where $n=4, 6, 8, 10$ or a

GLOSSARY OF TECHNICAL TERMS

	letter such as “N” designates a mixture of chain lengths and this is an methacrylate monomer made from TEI and KMAc (potassium methacrylate) and is used to make fluorinated polymethacrylic polymers with special properties
“TEOH”	perfluoroalkyl ethyl alcohols, a product of TEI and another key intermediate in the production of a range of monomers, surfactants, pharmaceuticals, solid lubricants, pesticides and textile coatings
“TEOH-8”	$F(CF_2)_8CH_2CH_2OH$, a product made from TEAc-8 and is mainly used in the production of polyurethane surface protectants and fluorosurfactants
“TESH”	fluorotelomer intermediates produced from TEI for use in the production of surfactants and fire fighting foams
“textile finishing agents”	agents that could be applied to fabrics, cover the surface of the fabric to repel water, oil and other liquids from contaminating the surface of the fabric
“TFE”	tetrafluoroethylene, CF_2-CF_2 , a monomer used in the production of TI, PTFE and HFE
“TI”	perfluoroalkyl iodides or telomer iodide, a raw material for the production of TEI and other fluorochemical products such as drugs, drug tracers, wax and mold release agents
“TI-8”	$F(CF_2)_8I$, chemical name is perfluorooctyl iodide, which is a key material for the production of fluorinated surfactants and other downstream fluorinated products such as TEI-8
“tonnes”	metric tons

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- our ability to source raw materials;
- fluctuation in the prices of raw materials and our ability to pass-through any increases in price to customers;
- our ability to protect our intellectual property rights;
- our ability to hire and retain talented employees;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place

FORWARD-LOOKING STATEMENTS

undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described in the following risk factors when considering making an investment in the Shares being offered in the Global Offering. You should pay particular attention to the fact that we are incorporated in BVI and our business and operations are conducted substantially in the PRC and are governed by a legal and regulatory environment which in certain aspects differs from that prevailing in other countries. Our business could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of the Shares may decline due to any of the risks and uncertainties and you may lose all or part of your investment. For details regarding the PRC and other relevant matters, please see the sections headed “Regulatory Overview” and “Appendix IV — Summary of the Constitution of Our Company and BVI Company Law.”

This prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.

RISKS RELATING TO OUR BUSINESS

Our sales and growth in market demand for our products are dependent, amongst other things, on the conditions of the global and, in particular, the PRC economy.

During the Track Record Period, we derived revenue primarily from sales of lubricant additives and specialty fluorochemical products in the PRC. We also export products to overseas markets, including United States, Japan, the Middle East, Europe and Southeast Asia. The demand for our lubricant additives and specialty fluorochemical products is dependent, amongst other things, on the conditions of the global and, in particular, the PRC economy. For instance, the demand for our lubricant additives in the PRC is significantly affected by the number of cars and other motor vehicles (and the mileage those cars and other motor vehicles are driven) in the PRC. The PRC economy and the number of cars and other motor vehicles (and the mileage those cars and other motor vehicles are driven) have grown significantly in recent years. However, we cannot assure you that this level of growth will continue, in particular, whether the PRC government may implement more strict rules to restrict the number of cars to be sold in the PRC in order to improve the traffic conditions or control air pollutions in the PRC cities. Demand for our lubricant additives outside the PRC is dependent, amongst other things, on the growth of the automotive industry in the overseas markets. The demand for our specialty chemical products in the PRC and overseas market is mainly driven by the demand for products treated by or manufactured with speciality fluorochemical products, particularly those products in the coatings, oil and gas, textiles, healthcare, crop protection, electronics, and automotive, which is closely correlated with the growth of China’s and the global economy.

In the PRC and our overseas markets, general economic conditions and interest rate levels, inflation and unemployment rates, demographic trends, GDP growth and consumer confidence, amongst other things, influence the growth of industries where our products are widely used or applied. As a result, a downturn in the relevant industries in the PRC or in the markets where our products are used, a downturn in general economic conditions or competition for our products in the markets in which we currently sell or intend to sell them could impact on our sales, resulting in pressure on the prices, volumes and margins achieved or achievable in the future. A decline in demand or a shift to lower value end products with a lower demand for our products resulting from deteriorating economic

RISK FACTORS

conditions could materially and adversely affect our business, financial condition, results of operations and prospects.

Our continued growth depends on our ability to retain or recruit highly skilled and qualified scientists. The loss of any key personnel, or the failure to recruit, train and retain additional skilled personnel, could negatively impact our ability to continue to offer customized products to our customers, develop innovative new products or continue our production and research.

The nature of our business is highly specialized and the importance of R&D activities to our business requires us to employ personnel or engage third-party consultants who are highly skilled and have relevant scientific and operational experience in chemical and other related scientific and technical fields. Our plants are located in relatively remote areas of China and are not near scientific research universities or other centers. We have historically engaged highly skilled Chinese and international scientists and engineers to develop our lubricant additives and specialty fluorochemicals, as well as design and implement manufacturing processes. Our scientists and engineers have played and will continue to play a critical role as we seek to develop new products and to offer customized products to our customers. Our ability to recruit and retain these highly skilled and technical personnel depends on a number of factors, including, among others, our ability to meet or exceed global salary trends, the adequacy of our R&D funding and the ability to offer an attractive and innovative work environment. If any of our scientists and engineers were to resign or terminate their service agreements, we may have difficulty replacing them with similarly experienced scientists and engineers and may incur additional costs and expenses in hiring any replacements.

Given the importance of our key research and operation experts, the loss of any key personnel, or the failure to recruit, train and retain additional skilled personnel, could negatively impact our ability to continue to offer customized products to our customers, develop innovative new products or continue our production and research, any of which could have material adverse impact on our ability to effectively execute and implement our strategy and on our business, financial condition, results of operations and prospects.

Our future expansion plan and projects may not be adequately executed or completed within our anticipated time frame or budget.

In accordance with our business development strategy, we intend to expand our business through organic growth and acquisitions, in response to the expected growth in market demand for our products. In particular, we will focus on increasing production capacities of existing products, developing new products based on customers' specifications and/or expected market trends. We may also enter into new markets by establishing subsidiaries, forming joint ventures or acquiring suitable activities. The success of our business expansion plan is subject to various factors, many of which are beyond our control.

We plan to significantly increase our production capacity of lubricant additives and specialty fluorochemical products in the PRC over the next several years. For details on our current production expansion projects, please see the section headed "Business — Manufacturing." We may encounter difficulties in expanding our production facilities for lubricant additives and specialty fluorochemical products at our existing facilities at Bawang Village and Fuxin, Liaoning Province and at our planned facilities at Jinzhou, Liaoning Province and Qinzhou, Guangxi Province as a result of unexpected extreme weather condition such as blizzards at the construction sites, shortage of necessary equipment

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components, shortage of labor that is suitably qualified and experienced, delay in obtaining necessary approval from government authorities or budget overruns. In addition, there is no assurance that we will be able to secure a stable supply of power or water at favorable terms, or at all, to sustain our future expansion. Any delay or interruption in construction of this additional capacity may impact our ability to meet customer orders. This could result in a loss of existing and potential new customers who, under such circumstances, may seek to source products from our competitors. In addition, our current planned expansion of our production capacity for lubricant additives and specialty fluorochemical products is intended to capture the expected strong growth in the PRC market as well as to develop and strengthen our international operations. If the order volumes of the existing customers are not sufficient or there is a lack of new customers, we may not be able to fully utilize our newly installed capacity. If this were to occur, it could adversely affect our business, results of operations and financial condition.

Furthermore, the success of our expansion through acquisitions and joint ventures is limited by the availability of, and competition for, suitable acquisition targets or joint venture partners and by our financial resources, including available cash and borrowing capacity. Moreover, future acquisitions or joint ventures may expose us to potential risks, including potential difficulties in operating in the jurisdictions of the acquired target or joint venture partner, the diversion of management attention and resources from our existing business and the inability to generate sufficient revenue to offset the costs and expenses of an acquisition. Acquisitions and joint ventures may also result in an increased leverage, assumption of potential legal liabilities in respect of the acquired businesses, and incurrence of impairment charges related to goodwill and other intangible assets. As a result, we cannot assure you that we will be able to achieve the strategic purpose of any acquisition or joint venture, the desired level of operational integration or our investment return target. Furthermore, any potential disputes with our joint venture partners may negatively impact our business expansion plans and the operations of the relevant joint venture, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our rapid growth during the Track Record Period may not be indicative of our future growth.

We experienced rapid growth during the Track Record Period. Our revenue increased from RMB3,359.4 million in 2011 to RMB5,033.8 million in 2013, representing a CAGR of 22.4%. However, there is no assurance that we will continue to grow as rapidly in the future as we did in the past. Our business operations are subject to various factors many of which are beyond of our control. For instance, the effects of changing regulatory, economic, environmental, competitive conditions and future expansion, and many other factors cannot be fully predicted and may have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, our future business growth is also subject to success of our business expansion, in particular, the expansion of our production capacity. Please see the section headed “ — Our future expansion plan and projects may not be adequately executed or completed within our anticipated time frame or budget.” As a result, our past results may not be indicative for our future performance.

We experience seasonal fluctuations.

We experienced seasonal fluctuations in our business and results of operations during the Track Record Period. Sales of our products and our production activities are generally slower during the first quarter of each year as a result of the Spring Festival holidays in China. As a result, comparisons of our sales and results of operations of the first three months of each year with other corresponding period within a single fiscal year or in different fiscal years are not necessarily meaningful and should not be relied as indicators of our performance for any future fiscal period.

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We sold a substantial volume of our lubricant additives and specialty fluorochemical products to a limited number of customers and any decrease in our sales to any of them would affect our financial results.

A substantial portion of our revenue is derived from a limited number of customers. During the Track Record Period, sales to our top five customers accounted for 87.0%, 86.3% and 79.4%, respectively, of revenue for the relevant periods. In particular, for the year ended December 31, 2013, approximately 57.2% of our sales of lubricant additives were made to CNPC and Sinopec (and their respective subsidiaries). For example, sales of our lubricant additives to our key customers are generally based on legally binding annual framework agreements with them. For certain customers such as CNPC and Sinopec, we firstly enter into a non-legally binding annual framework agreements with them and the agreed order volumes are allocated by the customers' central offices to their regional subsidiaries and/or branches. We then negotiate directly with these subsidiaries or branches on an annual basis. Under our specialty fluorochemicals segment, we sold our products to manufacturers of downstream specialty fluorochemicals. We also sold our products to trading companies, including a subsidiary of one of the largest conglomerates in China, who further resell our products to their clients. For the year ended December 31, 2013, approximately 40.2% of our sales of specialty fluorochemicals were made to the above mentioned subsidiary of one of the largest conglomerates in China. Furthermore, we have engaged a distributor to expand our business in North America, Latin America and certain European countries. We may be unable to maintain or renew relationships with our customers, replace underperforming distributor, add new distributors to expand our distribution network or penetrate into new geographic markets. And we may not be able to continue to obtain orders from our customers or distributors as we expected. We may also be unsuccessful in competing for desired customers or distributors to promote and sell our products.

As a result, any decline in the business of our major customers could lead to a decline in purchase orders. There is no assurance that we will be able to maintain or improve our relationships with these customers, or that we will be able to continue to supply products to these customers at current levels, if at all. If any of our key customers were to reduce substantially the size or number of the orders they place with us or were to terminate their business relationships with us entirely, we may not be able to obtain orders from other customers to replace any lost sales on comparable terms or at all. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Our interest expenses on bank borrowings may increase in the future due to our business expansions and after our repayment of shareholder's loans which is interest free.

During the Track Record Period, we funded our business expansion with a combination of our share capital, investments from certain Pre-IPO Investors, bank borrowings, our cash generated from operations and shareholder's loans from Driven Goal, our immediate holding company. As of December 31, 2013, the shareholder's loans from Driven Goal amounted to RMB1,234.9 million. The shareholder's loans from Driven Goal is unsecured, interest-free and repayable on demand and will be repaid in its full amount upon our Listing with the proceeds of this Offering. For details about the shareholder's loans, please see the section headed "Financial Information — Liquidity and Capital Resources". For the year ended December 31, 2013, our financial costs, consisting of interest on bank borrowings, amounted to RMB63.2 million. After Listing, we do not intend to get any further interest free loans from our shareholders and we expect to fund our operations and business expansions primarily through combination of bank borrowings and our cash generated from operations, as a result of which, we expect our interests expenses on bank borrowings to increase.

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We may fail to renew our certification or qualification as a supplier of our customers.

Many of our customers have adopted stringent standard in selecting suppliers for products and services. For instance, only recognized suppliers (a group of suppliers designated by CNPC and Sinopec, respectively) could supply products or services to CNPC or Sinopec (and their respective subsidiaries), respectively. CNPC and Sinopec conduct routine evaluation on performance of member suppliers, including product quality, product prices, delivery and after-sales service. CNPC and Sinopec may suspend or terminate membership of a supplier who fails to meet the relevant quality standards. There is no assurance that we could always renew or maintain our membership in a timely manner or without incurrence of material expenses to implement corrective measures, in which event, our business, financial condition and results of operations could be materially and adversely affected.

Furthermore, most of our major customers require us to first pass a qualification process before we can become a supplier to that customer. We cannot assure you that we will be able to pass such qualification process for new products with our existing customers or obtain necessary approvals for our products from any new customers. Even if we can ultimately pass such qualification process we cannot assure you that such approvals can be obtained in a timely manner. Moreover, a number of our major customers perform audit periodically on our Company, during which they review our systems and procedures for the various stages of our manufacture process. We cannot assure you that we will be able to continue to pass such audits without incurrence of material expenses to implement corrective measures, or in a timely manner, or at all. In addition, even if we become an approved supplier of a company, it does not necessarily mean that we will receive purchase orders from that company. If we fail to obtain or renew our certification as a supplier of CNPC, Sinopec, or our other key customers, we may not be able to obtain orders from other customers to replace any lost sales on comparable terms or at all. As a result, our business, financial condition and results of operations could be materially and adversely affected.

A significant portion of our specialty fluorochemical products are sold to trading companies and any failure to maintain the relationship with these trading companies or find competent replacements could affect the sales of our products.

During the Track Record Period, a significant portion of our specialty fluorochemical products were sold to a few trading companies, such as a subsidiary of one of the largest conglomerates in China, who in turn resell our products to end-users in the PRC and overseas. During the Track Record Period, our sales to trading companies accounted for approximately 65% to 90% of our total sales in the specialty fluorochemicals segment. We may be unable to maintain or renew relationships with our trading companies or we may not be able to continue to obtain orders from our trading companies at the current levels. We may also be unsuccessful in competing for desired trading companies to promote and sell our products. If any of these relationships were to be so altered or terminated and we were unable to obtain sufficient replacement orders on comparable terms, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We have limited control over the practice and manner of sales of trading companies and our distributors.

In line with our strategy, we engaged an exclusive distributor in September 2013 to expand into the North America, Latin America and select European countries. For details on our sales arrangement

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with the distributor, please see the section headed “Business — Sales, Marketing and Customers — Sales Channels.” For the year ended December 31, 2013, we did not generate any revenue from sales through the distributor. However, we have already made sample sales of our specialty fluorochemical products through the distributor. As of the Latest Practicable Date, we have not entered into any other distributor agreements. There is no assurance that the distributor, or any other distributors we may engage from time to time in the future, could market and sell our products successfully or maintain their competitiveness. We may not be able to successfully monitor our distributors to ensure efficient sales of our products.

In addition, even though we have direct contractual relationship with the distributor and the relevant trading companies, we do not have any contractual relationship with those ultimate end users who contract with the distributor and the relevant trading companies. As a result, our control over the ultimate sales by the distributor and the relevant trading companies is limited. In addition, although we contractually request the distributor to set the reselling price of consignment goods at the price no lower than the agreed floor price, to ensure compliance with applicable anti-dumping laws and to assure consistency among large global customers, there is no assurance that the distributor will always follow the price we set forth, which may subsequently adversely affect the sales of our products, which may in turn materially and adversely affect our results of operations.

Our business depends on our key senior management and loss of service of any of them or failure to find suitable replacements could affect the business operations of our Company.

Our growth and success depends to a significant extent on the continued service of our key senior management, including our Chairman and Chief Executive Officer who are closely involved in the strategy and management of our business. Our team of senior managers is highly experienced, having spent on average more than 20 years in the specialty chemicals industry, and has been instrumental in developing our market position and financial performance. With their knowledge and experience, the continuous service of our key senior management is important to our future prospects and development. If any of our key senior management personnel ceases to be employed by us, we may have difficulty finding suitable replacements with similar leadership and industry experience, and our business may be adversely affected. The loss of service of any of our key senior management personnel, or failure to find qualified replacements, could disrupt and adversely affect our business operations, financial condition, results of operations and prospects.

Our gross margin may drop due to factors beyond our control.

In 2011, 2012 and 2013, we recorded gross profit margin of 44.4%, 60.6% and 60.5%, respectively, where the gross margin for our lubricant additives segment amounted to 25.1%, 26.8% and 27.0%, respectively, and the gross margin for our specialty fluorochemicals segment amounted to 67.0%, 85.4% and 83.8%, respectively. Our gross margin was historically affected by, and is expected to continue to be affected by a combination of factors, including the mix of products, particularly the sales of higher revenue generating products, the costs of raw materials and the selling price we are able to charge to our customers, which in turn are affected by factors beyond our control including the general economic condition, our competitors, choice of products and evolution of technology or regulatory environment that may affect the customers’ choice of specific types of specialty chemical products. There is no assurance that we could continue to command the existing level of prices for our existing or new products. In particular, we intend to keep expanding our product portfolio according to the market demand. For details, please see the sections headed “Business — Manufacturing —

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Production Capacity Expansion” and “Business — Research and Development”. Our efforts may result in a significant increase in our cost of sales upon completion of the new production lines. If we are unable to generate additional revenue to set off such increase in our cost of sales, our overall gross profit margin may decrease. Furthermore, adverse developments in economic or regulatory conditions may result in decreased demand of our products, significant increase in raw materials or more intensive competition which could materially and adversely affect our profit margin, which could in turn have a material and adverse effect to our business, financial condition, results of operations and prospects.

We rely on trade secrets and proprietary technology and processes and any unauthorized disclosure of them could adversely affect our business.

We rely on a combination of patents, trade secrets and other unpatented proprietary know-how to maintain our competitive position. We have developed several proprietary production processes that use technology that the Directors believe to be unique. Our management and certain key personnel have entered into employment contracts with us containing confidentiality and non-compete obligations as well as provisions acknowledging that all intellectual property, trade secrets, products and other processes that are developed by them during the course of their employment are our property. We have also entered into consultancy agreements with our consultants on similar terms.

There can be no assurance that agreements we use to protect our patents, trade secrets and other proprietary know-how will not be breached, or that in the event of a breach we would have a remedy adequate to offset our losses. Any unauthorized disclosure of our trade secrets or other unpatented proprietary know-how, or any dispute we have with our collaborators regarding the ownership of patents or other forms of intellectual property, could negatively affect our business. We seek to protect our intellectual property across numerous jurisdictions including some like the PRC, where intellectual property protection has historically been difficult to enforce. Further, in practice, it may be difficult to enforce rights in patents, trade secrets and unpatented proprietary know-how due to the difficulty of identifying the confidential aspects of the relevant trade secrets and know-how. In the event we decide to enforce our intellectual property rights, through litigation or otherwise, that enforcement could require substantial costs and may divert the attention and resources of our senior management away from their responsibilities in the day-to-day operation of the business. In addition, if the ownership of this intellectual property is disputed, there can be no assurance that we would prevail. Existing or potential competitors may also independently develop similar technology or obtain other proprietary rights, which could impose restrictions on our activities and/or provide them with a competitive advantage.

Any of these factors could adversely affect our research and product development, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

We may not be able to protect our patents or other intellectual property.

We believe that developing new and enhanced products, processes and technologies that can be differentiated from those of our competitors is critical to the success of our business. We seek to protect our technology having potential business value as a trade secret. We also rely on patents that we obtained and acquired from Liaoning Tianhe (a company controlled by our Controlling Shareholders) and patent applications to protect certain advanced technical features of our products. Liaoning Tianhe has agreed to transfer to us the registered patents and patent applications made in its name and has granted us an exclusive license to enjoy their rights in those patents pending the

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completion of the transfer process. As of the Latest Practicable Date, we had five patent applications in the PRC. In the future, however, we may not succeed in successfully applying for and being granted patents to protect our intellectual property. Furthermore, patent applications in certain countries may not be published until more than 18 months after they are first filed, and we cannot be certain that we will be the first creator of technologies covered by pending patent applications or be the first to file patent applications on these inventions. For details of our intellectual properties, please see the section headed “Business — Intellectual Property Rights.”

In addition, we could lose our exclusive rights to use the proprietary processes that are covered by patents and patent applications. Our patents may be subject to challenges as to their scope or may be found to be invalid or otherwise unenforceable. Statutory differences in patentable subject matter depending on the jurisdiction may limit the protection we obtain on certain of the technologies we develop. Complicated factual and legal issues can also introduce uncertainty as to the validity, scope and enforceability of our patents and other intellectual property rights. We may not be able to exclude competitors from using the technologies we seek to protect if some of the patent applications were not granted, or some patents were to expire or were successfully challenged. In addition, the enforcement of patent rights through administrative action in the PRC involves a higher level of uncertainty than may exist in the Hong Kong and the United States, meaning that in order to enforce our rights against infringing third parties, we may have to resort to costly and prolonged litigation. Any failure to protect, maintain and enforce our intellectual property could therefore impair our competitiveness, divert our management’s attention and have a material adverse effect on our business, financial condition, results of operations and prospects.

Moreover, patent protections are subject to geographic restrictions and their scope of protection is limited to the countries in which the patents were granted. This means that if we have a patent in one jurisdiction in relation to a particular technology, we will not be able to exclude competitors from using that technology (within the scope of the patent claims) in another jurisdiction where we do not have a patent. Further, we may also be unable to use that technology in a jurisdiction (including exporting and selling a product that is the direct result of that technology into that jurisdiction) if a third party owns a patent in relation to that technology in that jurisdiction. This is the case even where we have independently developed the technology in question. This may jeopardize our strategy of expanding exports of our products into new markets, and could therefore have a material adverse effect on our competitiveness, financial condition, results of operations and prospects. As of the Latest Practicable Date, we did not have any patents or pending patent applications in any jurisdiction outside of the PRC.

We may be subject to claims of infringement of third-party intellectual property rights.

We seek to develop and implement new technologies and processes quickly, and in doing so we may not be aware of other third-party rights and accordingly, may be unable to assess the scope and validity of those third-party rights. In addition, product development is inherently uncertain in a rapidly evolving technology environment in which there may be numerous patent applications pending, many of which are confidential when filed with regard to similar technologies. There may also be a certain degree of uncertainty regarding who rightfully owns rights in a process or technology. For example, when we collaborate with our customers on projects, it may be unclear who owns the resulting technology, and as a result we may be subject to disputes or restrictions on use of those products. Accordingly, we may become subject to lawsuits for infringement on intellectual property rights. Intellectual property litigation could adversely affect the development or sale of the challenged product

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or technology or require us to pay substantial damages or royalties to license proprietary rights from third parties if we are found liable for the alleged infringement. Licenses may not be available to us on acceptable terms, if at all. As of the Latest Practicable Date, we had not been subject to any claims of infringement of third party intellectual property rights. However, given the rapid technological change that characterizes the industry, there can be no assurance that our current measures are adequate and that we will not be subject to claims of infringement by third parties, both within or outside of the PRC. Any intellectual property litigation could cause us reputational damage and to incur significant expense and divert our personnel's attention and efforts, any of which could have a material adverse effect on our business, financial condition, results of operation or prospects.

Our competitive position depends on the continued improvements and investments in our technology and processes and any failure to predict the market trends correctly or timely may undercut the competitive strength of our products.

Our strategy is to continue to enhance our existing products and to develop and manufacture new products with improved performance capabilities and with specifications that meet the changing needs of customers and improve our leading market position. Our strategy is also to continue to make improvements in our technology and productivity. While we devote a substantial amount of resources to new product development and invest in new technologies, processes and production facilities, our competitors could develop more effective products or new technologies. We also face risks related to our ability to continue to meet changing product performance standards, including delays, cost overruns and unanticipated technical difficulties that could occur in the development of new products and in the construction of new facilities. As customers' needs, related technologies and market trends are subject to change, we may not have the expertise, technology or production capacity to respond adequately to these changes and there is no assurance that we will be able to predict market trends correctly or in a timely manner. If we fail to predict changes in the technology or develop or adopt competitive technology on a timely basis, we may not be able to respond effectively to competitive industry conditions and changing customer demands and our products could become less competitive or obsolete. Responding to technological developments and changes in the specialty chemicals industry and adapting to new technologies or industry standards may require substantial investment and resources, time and capital. In the event we are unable to anticipate, respond to or utilize changing technologies or timely adapt to industry developments, our business, financial condition, results of operations and prospects could be materially and adversely affected. In addition, ongoing investments dedicated to researching, developing and launching new products could lead to higher costs without producing a proportional increase in our revenue or profits.

Our insurance coverage may not be sufficient to cover all of our potential losses.

We face various operational risks in connection with our business. However, consistent with the industry standards in the PRC, we are not insured against all of these risks. For example, we do not maintain any third-party liability insurance against claims for property damage, personal injury and environmental liabilities, other than third-party liability insurance for our vehicles. In particular, we depend on the continued safe operation of our production facilities. These production facilities are subject to disruptions and hazards associated with the manufacturing, handling, storage and transportation of a variety of reactive, explosive and flammable materials and products. Potential disruptions and hazards include leaks and ruptures, explosions, fires, inclement weather and natural disasters, unscheduled downtime, mechanical failure, supplier disruptions, chemical spills, discharges or release of toxic or hazardous substances or gases and environmental hazards. Incidents such as these

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at our production facilities could temporarily shut down or disrupt our manufacturing operations, causing production delays and resulting in liability for workplace injuries and fatalities. We cannot assure you that the safety measures we have in place for our operations will be sufficient to mitigate or reduce industrial accidents. We also cannot assure you that casualties or accidents will not occur. In addition, some of our production facilities are highly technical, which limits our ability to shift production or sourcing to other facilities in the event of an incident at one of our facilities or upgrading the machinery from time to time. If a production facility was shut down temporarily, we would likely suffer production delays and, to the extent that facility was used for the production of input material for our fluorochemical products, we would likely incur additional costs in sourcing alternative supplies, either of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

For more information on the operational hazards facing us, please see the section headed “Business — Environment, Health and Safety.” As a result, any disruption of the operations of our production facilities could have a significant negative impact on our ability to manufacture and deliver our products, which could result in a decline in our sales, the cancellation of orders, damage to our reputation and potential legal disputes, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. Any losses and liabilities for which we are not insured or for which our insurance coverage is inadequate to cover the entire liability may have a material adverse effect on our business, financial condition and results of operations.

We may be liable for damages based on product liability claims brought against our customers in end-use markets.

Many of our products provide critical performance attributes to customers’ products that are sold to consumers. The sale of these products involves the risk of product liability claims. If a person were to bring a product liability claim in respect of a product which contains products produced by us, it is possible that we may be named as a defendant in that claim or may be subject to separate litigation brought by our customer. Further, certain jurisdictions, in particular, the U.S., impose a strict liability on the product manufacturer in respect of product liability claims. In those jurisdictions, the claimants need not show any fault on the part of the manufacturer, only the presence of the defect and a causal link between the defect and the damage suffered by the claimants. A successful product liability claim or series of claims against us could cause us significant reputational damage and monetary loss and therefore could have a material adverse effect on our financial condition or results of operations.

We face risks from the handling and storage of hazardous, toxic and flammable materials.

Some of our raw materials and intermediate products, such as TFE and TI, are hazardous, toxic or flammable. Since we do not have long-term storage facilities for these materials and products, we must store them onsite while waiting to use them to produce our products or for the customers to arrange for transportation. The storage of these hazardous, toxic or flammable materials near our production facilities and the handling of these materials in the production process pose inherent risks. Any accident could materially disrupt the production of our products and may give rise to potential death or injuries of our work force. While we have not experienced any fatalities or serious injuries to our employees and have a sound health and safety policy, we cannot eliminate entirely the risk of accidents arising from the handling or storage of these hazardous, toxic or flammable materials. If an accident were to occur, we could be held liable and our employees could be injured or killed, which could adversely affect our business, results of operations and financial condition.

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Our pollutants discharge licenses and permits are subject to our compliance with regulatory requirements and some must be renewed periodically. For details, please see the sections headed “Regulatory Overview” and “Business — Qualifications and Licenses.” There can be no assurance that we will be able to maintain or renew our licenses or permits, or that we will be able to comply with any new licensing requirements in the case of any promulgation of new laws or regulations or modification to any existing law or regulations. Any failure to comply with regulatory requirements or inability to maintain or renew our license or permits could adversely affect our business, financial condition, results of operations and prospects.

We rely on our raw material suppliers for our business, which exposes us to risks associated with fluctuations in prices of raw materials, and reductions in the availability of raw material supplies could disrupt our operations.

We use significant quantities of a variety of specialty and commodity chemicals in our manufacturing processes, such as lubricant base oil (a derivative of crude oil) as packaging medium used in the production and sales of our lubricant additives, and iodine, IF₅ and R-22, used for the production of our specialty fluorochemical products. These raw materials have historically been generally available from a number of independent suppliers, although we cannot assure you that this will continue to be the case in the future. We typically enter into one-year contracts with major suppliers for lubricant additives and specialty fluorochemicals, which usually contain estimated volume and price ranges of raw materials. During the Track Record Period, our five largest suppliers accounted for 63.3%, 66.4% and 68.2%, respectively, of our total purchases for the same periods. We may be adversely affected by fluctuations in the price of these or other raw materials which have been subject to historical periods of rapid and significant movements in price.

The prices of raw materials that we depend on could be affected by a number of factors, including market supply and demand, changes in PRC import duties, PRC and global economic conditions and changes to the PRC or international environmental and regulatory requirements. Any significant increases in the cost of our raw materials may increase our cost of sales and negatively affect our profit margin and, more generally, our business, financial condition, results of operations and prospects. A reduction in, or lack of availability of, raw materials or interruptions in the supply chain could also impact our profitability to the extent that we are required to pay higher prices for, or are unable to secure adequate supplies of, the necessary raw materials. We do not enter into hedging arrangements with respect to the price of the raw materials used to produce our products. In response to price changes of raw materials, we seek to adjust the prices at which we sell our products to pass any increase in our costs to our customers to maintain our margins. If any supplier that we rely on for raw materials ceases or limits production, raises prices of its products or sells its products to alternate buyers, this may restrict our production and we may incur significant additional costs, including capital costs, in order to find alternate, reliable raw material suppliers. We may also experience significant production delays while locating new supply sources. There is no assurance we will be able to pass along these increased costs. If we were unable to pass on all or a portion of the increased cost of any of our raw materials to our customers, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our strategy to expand sales of our products overseas is subject to uncertainties and risks.

During the Track Record Period, we sold a portion of our products to trading companies, who in turn resold our products to domestic and international end-use customers. Even for our sales to end-

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users who manufacture downstream products utilizing our products, we have limited knowledge on the clients further downstream the industry chain. Furthermore, during the Track Record Period, 98.0%, 97.6% and 95.1% of our lubricant additives and specialty fluorochemical products were sold to customers in the PRC. As a result, we generally do not maintain direct business relationships with end-use customers who are located outside of the PRC. It is our long-term strategy to sell our products directly to overseas customers and improve the coverage and penetration of our sales forces through expanding our operations overseas with international sales and R&D centers as well as improved marketing and sales efforts in China. However, we have limited experience in direct sales and currently do not have the international distribution channels we would need to directly place our products overseas. Furthermore, direct sales to overseas markets will subject us to different regulatory schemes and trade controls with which we may not be familiar and may require us to seek governmental or regulatory consents or approvals in order to repatriate income earned in international jurisdictions to the PRC. Therefore, implementing this strategy could be expensive and time-consuming, and there is no assurance that we will succeed in establishing a viable international distribution network made of our own sales forces. Failure to do so could adversely affect our regulation, business operations and prospects.

We recorded net current liabilities during the Track Record Period and may record net current liabilities in the future.

The expansion of our business has been capital intensive. As of December 31, 2011 and 2012, we recorded net current liabilities of RMB733.9 million and RMB761.7 million, primarily because we incurred bank borrowings to fund expansion of our manufacturing facilities. As of December 31, 2013, we recorded a net current asset position of RMB107.3 million primarily due to an increase in cash and cash equivalents due to increased cash generated from our operations and proceeds from our loans and amounts due from related parties due to the sale of our marine business to Jinzhou Heisenberg. According to the unaudited consolidated financial statements for the four months ended April 30, 2014, we recorded net current liabilities of RMB804.4 million as of April 30, 2014, primarily because of the increase in the bank borrowings due within one year primarily because we drew down on a facility in the amount of US\$136.9 million on April 4, 2014 to pay the dividend of approximately RMB810.0 million (net of withholding tax) to our sole Shareholder as of the record date, Driven Goal. For further information about the net current liabilities position, please see the section headed “Financial Information — Liquidity and Capital Resources — Net current assets/(liabilities).” We may continue to have net current liabilities in the future as our business expands. If we are unable to obtain sufficient funds to meet our needs or refinance our loans on commercially acceptable terms, or if at all, then we may not be able to repay our borrowings, particularly, our short-term borrowings, upon maturity. This could materially and adversely affect our business expansion plans, financial condition and results of operations.

Changes in the law and regulation in the jurisdictions in which we operate may have a material adverse effect on us.

The regulatory environment for our business activities continuously changes at international, supranational, national and provincial levels as a result of technological progress, safety and environmental concerns, and customer demands regarding product quality and specifications. Changes in the rules, regulations, controls and laws with which we must comply could lead to increased compliance costs and more rigorous controls with regard to our handling of substances or hazardous materials, as well as their production, use, recycling or disposal. This could (i) compel us to

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significantly scale back on production, or possibly discontinue production altogether, or shut down, temporarily or permanently, certain production units; (ii) restrict our ability to alter or expand our facilities, to modify certain production processes or to continue production; and (iii) possibly compel us to abandon certain markets or our ability to export certain of our products to those markets, or institute costly emissions control or reduction systems, or, more generally, to incur expense for the renovation of existing sites. Any of these events could require significant capital expenditure and negatively impact on our production costs and our product portfolio or expose us to considerable liability risks.

We may not be able to obtain or renew our land use rights and building ownership rights for our business and production facilities.

As of the Latest Practicable Date, we held land use rights for 20 land parcels with an aggregate site area of 1,930,213.8 square meters. As of the Latest Practicable Date, we owned 211 buildings with an aggregate GFA of 139,224.2 square meters. We have obtained the relevant land use rights for land and building ownership rights for those buildings and land. We may move or renovate certain constructions and certain idle buildings in the future. We cannot assure you that we will be able to obtain or complete all of the necessary certificates, permits or procedures, or that we will be able to renew the title certificates for properties that are critical to our operations as they expire. Our rights as owner of these properties may be adversely affected as a result of the absence of necessary certificates, permits or procedures, and we may be subject to litigations or other actions taken against us and/or lose the right to continue to operate on these properties, which may materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE SPECIALTY CHEMICALS INDUSTRY

Failure to develop or market new products and manage product life cycles could impact our competitive position and have an adverse effect on our operational and financial condition.

Operating results are largely dependent on our assessment and management of portfolio of existing and developing products and services and our ability to bring those products and services to market. Under our lubricant additives segment, we plan to grow earnings by focusing on lubricant additives with strong market potential, such as Group II and III base oil, fluoride lubricating oil and various individual lubricant additive components, such as T106 and T154. Under our specialty fluorochemicals segment, we plan to keep focusing on high revenue generating products, such as anti-mar/anti-reflective agent, environment friendly paints and fluorinated fire fight foams. We develop new products through multiple methods including, but not limited to, internal research, collaborations, joint ventures and licensing technology or know-how. Developing and marketing new products could be adversely affected by difficulties or delays in product development such as the inability to identify viable new products, successfully focusing R&D on products that are commercially viable, and obtaining and maintaining regulatory approvals, intellectual property protection and market acceptance of new products and services. Because of the lengthy development process, technological challenges and intense competition, there can be no assurance that any of the products we are currently developing, or in which we will invest to develop, will achieve commercial success. Not currently matching investment choices in new products with market need and competitive offerings could materially and adversely affect the performance of our business. Furthermore, in the event we develop new products, sales of those products could replace sales of some of our current products, offsetting the benefit of even a successful product introduction.

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In addition, we compete with major global companies that have strong R&D capacities. Speed in discovering, developing and protecting new technologies and bringing related products to market is a significant competitive advantage. Failure to predict and respond effectively to this competition could cause our existing or future products to become less competitive, adversely affecting sales. Competitors are increasingly challenging intellectual property positions and the outcomes can be highly uncertain. If challenges are resolved adversely to us, it could negatively impact our ability to commercialize new products and generate sales from existing products.

We face competition from other specialty chemicals companies.

We actively compete with companies producing the same or similar products and, in some instances, with companies producing different products designed for similar uses. Depending on the product involved, we encounter competition in the factors such as product innovation, delivery, quality, service, performance, price, technical support and product recognition. Many of our competitors are established global enterprises with longer operating histories, greater financial resources, larger customer bases and distribution network, greater brand or name recognition, greater financial, technical, marketing and public relations resources and offer a broader range of products and services than us. As a result, these competitors may be better at withstanding the change in conditions within the markets where we operate, the change in raw materials prices or a change in the economy as a whole. Our competitiveness depends on our ability to improve our product innovation, achieve short lead-times, complete timely production and provide superior quality products and service.

While we currently have a market leading position in the PRC, if our competitors or new entrants were to add large-scale capacity in the PRC, the balance of supply relative to demand within the lubricant additives and the specialty fluorochemicals industries may be impacted significantly. This may negate some of the advantages we have by being in a leading position in the PRC, may disrupt industry balances and result in downward pressure on prices, which could impact negatively our business, financial condition, results of operations and prospects.

In addition, while we contract for our customers to pick up products from us, transportation, especially in international sales, may negatively impact on our pricing and timing of delivery, which may make our products less desirable compared to our competitors with larger distribution networks.

We expect our competitors to continue to develop and introduce new and enhanced products, which could impact the market acceptance of our products. In addition, we may in the future face competition from more sophisticated competitions in the PRC, including from international competitors operating in the PRC. Current and future consolidation among our competitors and customers may also cause a loss of our market share. Competitive pressure may require us to reduce our prices or increase our production costs, force us to reduce R&D expenditures and may adversely affect our profit margins and results of operations. Our failure to compete effectively could materially and adversely affect our business, financial condition, results of operations and market position.

We are required to comply with various environmental, health and safety laws which are extensive and the compliance of which may be onerous or expensive.

We are subject to applicable national and local laws and regulations with respect to the protection of the environment and the health and safety of employees and the public in the PRC, such as The Environment Protection Law, The Production Safety Law and the Regulations on the Safe

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Management of Hazardous Chemical Materials. These laws and regulations govern, amongst other things, aerial emissions, waste water discharges, the storage, use and handling of hazardous substances, waste disposal, potential investigation and remediation of soil and ground water contamination and protection of the health and safety of employees. Our manufacturing processes and products are subject to stringent quality, environmental and occupational safety standards. In addition, as of the Latest Practicable Date, operating facilities of Jinzhou DPF-TH and FHT have obtained *Occupational Health and Safety Management System GB/T28001-2011 and GB/T28001-2001* certifications, respectively. In addition, we have complied with the *Globally Harmonized System of Classification and Labelling of Chemicals*, or GHS, which addresses the classification of chemicals by types of hazards and prescribes safety labels and data sheets, and with the *Registration, Evaluation, Authorization and Restriction of Chemicals* in the European Union, or REACH, which addresses the registration, evaluation, authorization and restriction of chemicals in the European Union.

If we fail to comply with these laws and regulations, we could be exposed to penalties, fines, suspension or revocation of our licenses or permits to conduct business, administrative proceedings and litigation. In light of the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, there can be no assurance that the PRC government or the governments of other overseas jurisdictions in which we have operations will not impose additional or more onerous laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers.

RISKS RELATING TO THE PRC

Any slowdown in the PRC economy or changes in political and economic policies of the PRC government could have a material adverse effect on the overall growth in the PRC, which could reduce the demand for our products.

Substantially all of our assets and business operations are currently located in the PRC and substantially all of our revenues are derived from the sale of products in the PRC. For the year ended December 31, 2011, 2012 and 2013, we derived 98.0%, 97.6% and 95.1% of our revenue from the sale of products to customers in the PRC, respectively. Accordingly, our business, financial condition, results of operations and prospects are significantly affected by economic, political, social and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including in terms of its structure, the level of governmental involvement, the level of development, its growth rate, the control of foreign exchange and capital flows and the allocation of resources. The PRC economy is in transition from a planned economy to a market economy. For the past three decades, the PRC government has implemented economic reform measures, emphasizing the utilization of market forces in the development of the PRC economy. Any adverse change in the PRC's economic, political and social conditions, as well as governmental policies could have a material adverse effect on the PRC's overall economic growth, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

The PRC government has implemented economic reform measures and industrial policies in the past three decades and is expected to continue to do so in order to utilize market forces in the

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development of the PRC economy. Some of these measures and policies, while benefiting the overall PRC economy, may have a negative effect on us. For example, efforts by the PRC government to slow the pace of growth of the real estate industry in the PRC may impede growth of other areas of the PRC economy.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

Our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. In particular, a number of our material agreements are governed by PRC laws. The PRC legal system is a civil law system based on written statutes and prior court decisions can only be used as reference. Since the late 1970s, the PRC government has significantly enhanced PRC laws and regulations in relation to economic matters such as foreign investments, corporate organization and governance, commerce, taxation and trade. However, the PRC does not yet have a fully integrated legal system. Due to the limited volume of published cases and the non-binding nature of prior court decisions, the interpretation and enforcement of many recently enacted laws, rules and regulations may be uncertain or inconsistent. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, we cannot predict the effects of future developments in the PRC legal system. We may be required in the future to procure additional permits, authorizations and approvals for our existing and future operations, which may not be obtainable in a timely fashion or at all. An inability to obtain such permits or authorizations may have a material adverse effect on our business.

Our Company may be deemed a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to PRC taxation on its worldwide income.

Under the PRC Enterprise Income Tax Law that took effect on January 1, 2008, except for the purchase and sale of equity through a public securities market, enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate on their worldwide income. The State Council of the PRC has promulgated implementation rules of this tax law which defines “de facto management body” as an organization that exercises substantial and overall management and control over an enterprise’s manufacturing or business operation, finance and property. The determination of enterprise residency is further clarified in the “Notice of the SAT on Issues Relating to Determining the Resident Enterprise Status of Overseas Registered Chinese Holding Enterprises Based on the ‘de facto Management Bodies’ Standard”, which was issued on April 22, 2009 and has a retrospective effect since January 1, 2008. The notice provides specific tests setting out under what situations an enterprise’s “de facto management body” would be considered to be located in the PRC. However, these tests are provided only in respect of enterprises that are established offshore by PRC incorporated enterprises. No clarification of what constitutes a “de facto management body” is provided in this notice or any other public document in respect of enterprises that are established offshore by private individuals or foreign enterprises, as is the case with us.

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The PRC tax authorities in different districts may have different interpretations and policies in the implementation of the PRC Enterprise Income Law and relevant regulations and the classification of resident and non-resident enterprises. Substantially all of our Company's management is currently based in the PRC and the Directors expect them to continue to be located in the PRC for the foreseeable future. None of our Company nor any of our non-PRC subsidiaries are currently treated as "resident enterprises" for enterprise income tax purposes by the relevant tax authorities, however in the event that any or all of them are treated as "resident enterprises", their respective worldwide income, excluding dividends received from our Company's PRC subsidiaries, will be subject to PRC income tax at a rate of 25%. The imposition of such PRC income tax on some or all of our members may have a material adverse effect on our business, financial condition, results of operations and prospects.

Dividends payable by our Company to non-PRC shareholders and gains on the sale of Shares may become subject to income taxes under PRC tax laws.

Under the PRC Enterprise Income Tax Law, the Personal Income Tax Law of the PRC and relevant implementing regulations, unless otherwise stipulated in a relevant international tax treaty entered into by the PRC, dividends payable to shareholders that are "non-resident enterprises" are subject to a withholding tax of 10%, and dividends payable to shareholders who are "non-resident individuals" may be subject to a withholding tax of 20%, in each case to the extent such dividends are deemed to have their sources within the PRC. Similarly, any gain realized on the transfer of shares by "non-resident enterprise" shareholders are also subject to a 10% PRC income tax (or other treaty rate, if applicable), and any gain realized on the transfer of shares by "non-resident individual" shareholders may be subject to a 20% PRC income tax, in each case if such gain is regarded as income derived from sources within the PRC. If our Company is considered to be a "resident enterprise" by virtue of having its "de facto management body" in the PRC, the dividends paid with respect to Shares to Shareholders who are "non-resident enterprises" would be treated as income derived from sources within the PRC and would be subject to withholding tax at a rate of up to 10%; and the dividends paid with respect to Shares to Shareholders who are "non-resident individuals" would be treated as income derived from sources within the PRC and would be subject to withholding tax at a rate of up to 20%. The gain "non-resident enterprise" and "non-resident individual" Shareholders may realize from the transfer of Shares may also be treated as income derived from sources within the PRC and be subject to PRC income tax.

We face uncertainty with respect to indirect transfers of equity interests in our PRC subsidiaries by our non-PRC holding companies.

Under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise (Circular Guoshuihan [2009] No. 698) ("**Circular 698**") issued by the State Administration of Taxation on December 10, 2009 with retroactive effect from January 1, 2008, where a non-resident foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor is required to report the indirect transfer to the competent tax authority of the PRC resident enterprise. If the PRC authorities were to adopt a "substance over form" approach, they may disregard the existence of the overseas holding company if it were to lack a reasonable commercial purpose and if it were established for the purpose of avoiding PRC tax. As a result, any gains derived from such an indirect transfer might be subject to PRC withholding tax at a rate of up to 10%. In addition, Circular 698 provides that where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

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There is considerable uncertainty as to how the PRC tax authorities will apply Circular 698. For example, while the term “indirect transfer” is not clearly defined, it is understood that the relevant PRC tax authorities purport to have jurisdiction to request information from a wide range of foreign entities having no direct contact with the PRC. Moreover, the relevant PRC authority has not yet promulgated any formal provisions or made any formal declarations stating how to calculate the effective tax rates in foreign tax jurisdictions or how the process and format of reporting an indirect transfer to the competent tax authority of the relevant PRC resident enterprise should be carried out. In addition, no formal implementation guidance has been published with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax, or how and to what extent the PRC tax authority may adjust the taxable income of related party transfers. As a result, we face the risk of being taxed under Circular 698 due to any indirect transfer of equity interest in any of our PRC subsidiaries. For more information, please see the sections headed “Our History and Corporate Structure” and “Appendix III — Summary of Terms of Pre-IPO Investments” attached to this prospectus. If this were to occur, we may incur additional tax-related expenses or otherwise be required to allocate significant resources to comply with, or to establish that we should not be taxable under Circular 698. Any such outcome could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be subject to fines and penalties under the Social Insurance Law of the PRC and our labor costs may increase.

The Social Insurance Law of the PRC (the “**Social Insurance Law**”) was promulgated on October 28, 2010 and became effective on July 1, 2011. The implementation of the Social Insurance Law could increase our staff costs and expenses associated with social insurance payable in the PRC. As the Social Insurance Law is a newly enacted law and has only very recently become effective, substantial uncertainty remains as to its implementation and interpretation by governmental authorities in the PRC and its potential impact upon our business, financial condition, results of operations and prospects. In particular, during the Track Record Period, we have not made social security insurance contributions for certain employees primarily because the relevant employees failed to make their own contributions according to the relevant PRC laws, for which we would be required to make matching contributions. Furthermore, during the Track Record Period, Jinzhou DPF-TH, FHT and North China Petrochemical, our subsidiaries located in Jinzhou, Liaoning Province, have not paid the housing provident fund contributions required under the applicable PRC laws in respect of their employees, because the relevant local government authorities have not commenced establishing accounts for private companies to make such contributions as of the Latest Practicable Date. For more information, please see the section headed “Business — Legal Proceedings and Compliance — Non-Compliance.”

Inflation in the PRC could negatively affect our profitability and growth.

Economic growth in the PRC has, in the past, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation. For example, the PRC government introduced measures in certain sectors to avoid overheating of the PRC economy, including increasing interest rates and capital reserve thresholds at PRC commercial banks. The effects of the stimulus measures implemented by the PRC government since the global economic crisis that unfolded in 2008 and the continued growth in the overall economy have resulted in sustained inflationary pressures. If such inflationary pressures continue and are not mitigated by PRC government measures, our cost of sales will likely increase, and our profitability would likely be materially reduced, as there is no assurance that we would be able to pass any cost increases to our

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customers. If the measures implemented by the PRC government to control inflation are successful, these measures may also slow economic activity in the PRC and reduce demand for our products and severely decrease our revenue growth.

Government control over currency conversion may affect the value of a Shareholder's investment in the Shares and limit our ability to utilize our cash effectively.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditure from trade related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, foreign exchange transactions in the capital account, including the foreign currency capital in any foreign-invested enterprise in the PRC, the repayment of the principal amount of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require prior approval from SAFE or its local branch. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Substantially all of our revenue are in Renminbi, which is currently not a freely convertible currency. We will have to convert a portion of our Renminbi revenue or profit to meet our foreign currency obligations, such as the payment of dividends by our Company, if any are declared, and the repayment of existing shareholder's loans to our controlling shareholders.

While current PRC laws and regulations permit conversion of Renminbi into foreign currencies for payment of current account items (including payment of dividends to foreign shareholders), any future change in PRC law or government policy may restrict our Company's ability to pay dividends and other current account items in foreign currencies or restrict our Company's ability to make payments without obtaining prior approval from SAFE.

If restrictions imposed by the PRC government prevent us from obtaining sufficient foreign currency to satisfy our currency demands, our Company may not be able to pay dividends in foreign currencies to Shareholders.

In addition, since substantially all of our revenue are in, and are expected to continue to be in, Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise fund our business activities that are conducted in foreign currencies. This could affect the ability of our subsidiaries in the PRC to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from our Company, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are exposed to risks associated with fluctuations in exchange rates.

All of our production facilities are in the PRC and substantially all of our costs are incurred in Renminbi. Renminbi is our functional currency and our financial statements are presented in RMB.

The conversion of Renminbi into foreign currencies, including the US dollar, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of

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pegging the value of the Renminbi to the US dollar. Under this policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Effective May 21, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3% to 0.5% around the central parity rate, and on June 19, 2010, the PBOC announced further reforms to increase the flexibility of the Renminbi exchange rate. Under the current policy, the Renminbi is pegged against a basket of currencies as determined by the PBOC against which it can rise or fall within stipulated ranges from 0.5% to 1% each day. These changes in policy have resulted in an approximately 33.8% appreciation of the Renminbi against the US dollar from July 21, 2005 to January 31, 2014. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in an appreciation of the Renminbi against these currencies. Any appreciation of the Renminbi may cause our products which are sold to customers overseas for export to be relatively more expensive than those of our non-PRC competitors, which could have an adverse impact on the sale of our products, and may cause imported products, which compete with our products, to be relatively less expensive for PRC customers. In addition, while currently substantially all of our costs are in RMB (other than the shareholder's loans which are to be repaid using the IPO proceeds), our strategy in the future is to initiate direct sales to international customers and expand our operation internationally through establishing international sales centers and R&D centers which may increase our foreign exchange exposure. This could have a material adverse effect on our business, financial condition, results of operations and prospects. Conversely, any depreciation of the Renminbi would adversely affect the value of any dividends payable on the Shares by our Company in foreign currency terms.

There are only limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations. While we may consider entering into currency hedging transactions in the future, the effectiveness of these transactions may be limited and we may not be able to successfully hedge our foreign currency exposure at all. In addition, any foreign currency exchange losses which we may incur may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies because the regulations would limit our ability to hedge our exposure to foreign currency exchange losses.

It may be difficult to effect service of process upon, or to enforce judgments obtained outside the PRC against us, our Directors or our senior management members who reside in the PRC.

We are incorporated in BVI. The vast majority of our assets, our subsidiaries and their assets are located in the PRC. In addition, substantially all of our Directors and our officers reside within the PRC and most assets of our Directors and officers are also located within the PRC. As a result, it may be difficult for investors to effect service of process outside the PRC upon most of our Directors and officers, including in respect of matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may only be reciprocally recognized or enforced if the jurisdiction has a treaty with the PRC or if there are reciprocal relationships between the PRC and such jurisdiction, subject to the satisfaction of other requirements. However, the PRC does not have treaties providing for the reciprocal recognition or enforcement of judgments of courts with BVI, Japan, the United Kingdom, the United States and most other western countries. Although Hong Kong and the PRC entered into an agreement on reciprocal recognition of judgments, enforcement of judgments is predicated on a written choice of court agreement that gives a PRC or Hong Kong court exclusive jurisdiction. As a result, it may be difficult or impossible for investors to effect service of process against our assets, management members or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

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PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the Global Offering to make additional capital contributions or loans to our major PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the net proceeds from the Global Offering, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment our PRC subsidiaries are approved to make under relevant PRC laws and the registered capital of our major PRC subsidiaries, and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to our major PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect our PRC subsidiaries' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments and would have a material adverse effect on our business, financial condition and results.

Any change in the preferential tax treatment we currently enjoy in the PRC may have an adverse impact on our results of operations.

According to the relevant PRC laws and regulations, our subsidiary Jinzhou DPF-TH was certified as a New and High Technical Enterprise on November 29, 2011 for three years in accordance with the applicable Law of the PRC on Enterprise Income Tax (the "EIT Law"), and was subject to income tax at a tax rate of 15% from 2011 to 2013. According to the relevant procedures, if an application is received by the relevant authorities in 2014, such authorities will normally announce the application review results in late 2014 or early 2015, and the application review results will take retrospective effect from 2014. Our applications to renew the qualification of New and High Technical Enterprise for Jinzhou DPF-TH were under review by the relevant PRC Government authorities, as of the Latest Practicable Date. FHT, another wholly owned subsidiary of us, was certified as a New and High Technical Enterprise on November 27, 2012 in accordance with the applicable EIT Law and was subject to income tax at a tax rate of 15% from 2012 to 2014. Although we believe that there are no legal obstacles for us to renew qualification for Jinzhou DPF-TH and FHT when due, there is no assurance that we could always complete such registration or obtain approval on time, the failure of which may cause increase in our tax payment, which may in turn cause material and adverse impact effect on our business, financial condition and results.

Natural disasters and health and public security hazards in the PRC may severely disrupt our business and operations.

In May 2008, a major earthquake registering 8.0 on the Richter scale struck Sichuan Province and certain other parts of the PRC, devastating much of the affected areas and causing the deaths of tens of thousands of people and widespread injuries. In addition, in early 2008, parts of the PRC, in particular its southern, central and eastern regions, experienced what was reported the most severe winter weather in the country in half a century, which resulted in significant and extensive damage to factories, power lines, homes, automobiles, crops and other properties, blackouts, transportation and communications disruptions and other losses in the affected areas. Moreover, certain countries and regions, including the PRC, have encountered incidents of the human swine flu, also known as Influenza A (H1N1), the avian flu, also known as the H5N1 strain of bird flu, as well as severe acute respiratory syndrome (SARS), over the past ten years. We are unable to predict the effect, if any, that

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any future natural disasters and health and public security hazards may have on our business. Any future natural disasters and health and public security hazards may, among other things, significantly disrupt our ability to adequately staff our business, distribute our products and may generally disrupt our operations and services. Furthermore, such natural disasters and health and public security hazards may severely adversely affect our business and prospects.

RISKS RELATING TO THE GLOBAL OFFERING AND THE SHARES

The Controlling Shareholders will continue to be able to exercise substantial influence over our business following the Global Offering and its interests may conflict with the interests of our other shareholders.

Immediately after the Global Offering, our Controlling Shareholders will hold approximately 64.576% of the Shares. While our Company has entered into the Deed of Non-competition with the Controlling Shareholders to ensure that we are capable of carrying on our business independently of the Controlling Shareholders, by virtue of the level of the shareholding, the Controlling Shareholders may be able to influence certain matters requiring approval of our Company's shareholders, such as the election of directors and the approval of certain business decisions. There could also be a conflict between the interests of the Controlling Shareholders and the interest of our Company's other shareholders with respect to decisions such as on dividends.

Substantial future sales of Shares and issuances of equity or debt securities that are convertible into equity could impact the market price of the Shares and may result in a dilution of shareholding.

Upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), the Pre-IPO Investors will hold in aggregate approximately 16.382% of the issued Shares. These Shares will be subject to lock-up arrangements, described in the paragraph headed "Our History and Corporate Structure — Lock-up Undertakings". Our Company is unable to predict whether substantial amounts of such Shares will be sold in the open market by the Pre-IPO Investors following the termination of these lock-up restrictions or by other shareholders. Any sales of substantial amounts of the Shares in the public market, or the perception that such sales might occur, could result in a material adverse effect on the market price of the Shares and could impair our Company's ability to raise capital through the sale of additional equity securities.

Further, we may seek to raise financing to fund future acquisitions and other growth opportunities. Our Company may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, our Company's existing shareholders would suffer dilution in their percentage ownership, and such an issue, or the perception that such an issue may occur, could have a material adverse effect on the market price of the Shares.

A potential sale of Shares by our existing Shareholders could have a material adverse effect on our Share price.

Future sales by our existing Shareholders of a substantial number of our Shares in the public markets after the Listing could materially and adversely affect market prices of our Shares prevailing from time to time. Only a limited number of the Shares currently outstanding will be available for sale immediately after the Listing due to contractual and regulatory restrictions on re-sale. Please see the section headed "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules" in this

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prospectus for a description of some of the contractual and regulatory restrictions on re-sale. Nevertheless, after these restrictions lapse or if they are waived or breached, future sales of a substantial number of our Shares, or the perception that these sales may occur, could materially and adversely affect the market prices of our Shares and our ability to raise equity capital in the future.

There has been no prior public market for our Shares and their liquidity and market price may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Underwriters), and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We expect our Shares to be listed on the Hong Kong Stock Exchange. A listing on the Hong Kong Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our Shares will not decline following the Global Offering. Furthermore, the price and trading volume of our Shares may be volatile.

The following factors could cause the market price of our Shares following the Global Offering to vary significantly from the Offer Price:

- variation in our turnover, earnings and cash flow;
- liability claims brought against us based on, for example, defective products or safety-related regulatory actions;
- interruptions to our distribution arrangements;
- our failure to execute our strategy;
- any unexpected business interruptions resulting from operational breakdowns or natural disasters;
- inadequate protection of our intellectual property or legal proceedings brought against us for infringement of third parties' intellectual property rights;
- any major changes in our key personnel or senior management;
- our inability to obtain or maintain regulatory approval for our products; and
- political, economic, financial and social developments.

Our Company will primarily depend upon its subsidiaries for its cash flows and income.

Our Company is a holding company and, therefore, its ability to pay dividends will depend upon the level of distributions, if any, it receives from its operating subsidiaries which are incorporated in the PRC, associated companies and the level of its cash balances. PRC laws require that dividends be paid only out of net profit, calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require all of our subsidiaries in the PRC to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distributions as cash dividends. In addition to these restrictions, our subsidiaries incorporated in the PRC and elsewhere may, from time to time, be subject to other restrictions on their ability to make distributions to their immediate parent or our Company, as the case may be, as a result of foreign exchange limitations and other legal or regulatory restrictions. The ability of our Company to pay dividends and make other distributions to Shareholders

RISK FACTORS

is dependent upon receipt by it of dividends and other distributions of value from its subsidiaries and companies in which it has an investment and the level of its distributable reserves. There can be no assurance that such restrictions will not have a material adverse effect on the ability of our Company's ability to pay dividends and on our business, financial condition, results of operation and prospects.

The market price of our Shares when trading begins could be lower than the Offer Price as a result of, among other things, adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

The Offer Price will be determined on the Price Determination Date. However, the Offer Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be the fifth business day after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Offer Shares during that period. Accordingly, holders of the Offer Shares are subject to the risk that the price of the Offer Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Certain facts and other statistics in this prospectus with respect to China, the PRC economy and the PRC lubricant additives and specialty fluorochemicals markets are derived from various official government sources and may not be reliable.

Certain facts and other statistics in this prospectus relating to China, the PRC economy and the PRC lubricant additives and specialty fluorochemicals markets have been derived from various official PRC government publications. We believe that these publications are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the underwriters or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies or in other markets and should not be unduly relied upon. Furthermore, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus.

There has been coverage in the media regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of such media coverage or forward looking statements and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this prospectus. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, except as otherwise permitted by the Hong Kong Stock Exchange at its discretion, an issuer must have sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Given our Group's principal business operations are located outside Hong Kong and members of our Group's senior management are, and expect to continue to be, based primarily in the PRC, our Company currently does not, and does not contemplate that we will, have sufficient management presence in Hong Kong in the foreseeable future for the purposes of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication between us and the Hong Kong Stock Exchange, we have put in place the following measures:

- Mr. Joseph Lee and Mr. Yeung Ming Fai have been appointed as the authorized representatives of our Company pursuant to Rule 3.05 of the Listing Rules to act as our Company's principal communication channel with the Hong Kong Stock Exchange. Mr. Joseph Lee is an executive Director and the chief financial officer of our Company and Mr. Yeung Ming Fai is our company secretary. Each of Mr. Lee and Mr. Yeung is ordinarily resident in Hong Kong, and will be available to meet with the Hong Kong Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile or e-mail;
- each of the authorized representatives has means to contact all members of the Board (including our independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the members of the Board for any matter;
- all Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and can meet with the relevant members of the Hong Kong Stock Exchange in Hong Kong within a reasonable period upon notice;
- in compliance with Rule 3A.19 of the Listing Rules, we have retained Cinda International Capital Limited as compliance advisor for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules, and it will act as an additional channel of communication with the Hong Kong Stock Exchange; and
- to enhance the communication with the Hong Kong Stock Exchange, each of our Directors has provided to each of the authorized representatives and the Hong Kong Stock Exchange his contact details including mobile phone number, office phone number, fax number and e-mail address.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

DEALINGS IN THE SHARES PRIOR TO LISTING

Pursuant to Rule 9.09(b) of the Listing Rules, there must be no dealing in the securities for which listing is sought by any connected person of the issuer from four clear business days (as defined in the Listing Rules) before the expected hearing date until listing is granted.

Our Group received investments from certain Pre-IPO Investors by way of exchangeable loans, convertible preferred shares, exchangeable bonds and warrants issued by Driven Goal or Gain Elite, both being our Controlling Shareholders. See “Our History and Corporate Structure — Pre-IPO Investors of our Group” and Appendix III to this prospectus for further details of the investment by the Pre-IPO Investors.

Further, as of the Latest Practicable Date, the Wei Family holds 4.50% and 5.33% interests in our Company for the Taiwan consultant (i.e. Jimmy Chen) and the US scientists team (namely, David Allen Flanigan, David Alan Offord and Paul Raphael Resnick) respectively. See “Our History and Corporate Structure — Cooperation with the Taiwan Consultant and US Scientists Team” in this prospectus for further details.

In accordance with the provisions of the agreements with the Pre-IPO Investors and as part of the Reorganization, Driven Goal will transfer Shares of our Company to certain Pre-IPO Investors after the listing hearing date and immediately prior to the Listing. In accordance with the agreement with the Taiwan consultant and the US scientists team, the Wei Family will also, through Driven Goal, return the interests in Shares of our Company held for the Taiwan consultant and the US scientists team after the listing hearing date and immediately prior to the Listing. See also “Our History and Corporate Structure — Reorganization — Reorganization for Pre-IPO Investors”, “Our History and Corporate Structure — Cooperation with the Taiwan Consultant and US Scientists Team”, and “Our History and Corporate Structure — Reorganization — Transfer of Shares to Taiwan Consultant and US Scientists Team” in this prospectus for further details.

For the reasons set forth below and on the basis that the Reorganization will not prejudice the interests of the potential investors in our Company, we have applied to the Hong Kong Stock Exchange for and obtained a waiver from strict compliance with the requirements under Rule 9.09(b) of the Listing Rules solely with respect to any dealing in the Shares by the Controlling Shareholders to effect the aforementioned Reorganization steps:

- the Reorganization steps for the Pre-IPO Investors are procedural to facilitate the realization of the value of the investments of the Pre-IPO Investors in our Group in accordance with the relevant investment agreements;
- the share transfer to the Taiwan consultant and the US scientists team is only a means for the Wei Family to transfer back the interest in Shares held for the Taiwan consultant and the US scientists team;
- the Reorganization will occur immediately prior to the Listing and does not require any additional consideration to be paid by any of the Pre-IPO Investors, the Taiwan consultant or the US scientists team; and
- the material terms of the agreements with the Pre-IPO Investors, the relationship among the Wei Family, the Taiwan consultant and the US scientists team and the Reorganization are disclosed in the section headed “Our History and Corporate Structure” and Appendix III to this prospectus, to provide sufficient information to enable potential investors to make a properly informed assessment of our Company.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Listing Rules for the purpose of giving our information to the public with regard to us. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus 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 this prospectus or any statement herein misleading.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of 281,728,000 Shares initially offered and the International Offering of 2,535,536,000 Shares initially offered (subject, in each case, to reallocation on the basis under the section headed "Structure of the Global Offering" in this prospectus).

The listing of our Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) and us. The International Underwriting Agreement is expected to be entered into on or about June 13, 2014, subject to agreement on the Offer Price between the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) and us. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents, advisers or representatives or any other person involved in the Global Offering.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for our Shares are set out in the section headed "How to Apply for the Hong Kong Offer Shares" of this prospectus and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF THE SHARES

No action has been taken to permit a public offering of the Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

Each person acquiring the Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of the Shares to confirm, that he is aware of the restrictions on offers and sales of the Shares in this prospectus. In particular, the Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering and upon the exercise of the options granted under the Share Option Scheme.

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on June 20, 2014. Except for our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

The Shares will be traded in board lots of 2,000 Shares. The stock code of the Shares is 1619.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange is rejected before the expiration of three weeks from the date of the closing of the subscription application, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Hong Kong Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Shares or exercising rights attached to them. It is emphasized that none of us, the Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents, advisers or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Shares or exercising any rights attached to them.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangement relating to the Over-allotment Option and stabilization are set out under the section headed “Underwriting” in this prospectus.

SHARE REGISTER AND STAMP DUTY

All the Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the Share register of members of our Company maintained in Hong Kong. We will maintain our Company’s principal register of members at our current registered office in BVI or at the office of such principal share registrar in BVI as we may from time to time appoint.

Dealings in the Shares registered in the register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date. Unless indicated otherwise, (i) the translations between Renminbi and Hong Kong dollars were made at the rate of RMB1.00 to HK\$0.79549 (set by the PBOC for foreign exchange transactions prevailing on May 23, 2014), (ii) the translations between Renminbi and U.S. dollars were made at the rate of RMB6.2363 to US\$1.00, the exchange rate as of May 23, 2014 as set forth on the H.10 statistical release of the U.S. Federal Reserve Board, and (iii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.7532 to US\$1.00, the exchange rate as of May 23, 2014 as set forth on the H.10 statistical release of the U.S. Federal Reserve Board.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail. However, the translated English names of the PRC nationals, entities (including certain of our subsidiaries), departments, facilities,

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

certificates, titles, laws, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentages figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one, two or three decimal places. Any discrepancies between totals and sums of amounts listed in any table are due to rounding.

SELLING SHAREHOLDERS

Please refer to “Statutory and General Information — 12. Particulars of the Selling Shareholders and Over-allotment Option Grantors” in Appendix V of this prospectus for information of the Selling Shareholders.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Executive Directors		
Mr. WEI Qi (魏奇)	3-6-1, No. 215 Qingnian Street Shenhe District Shenyang City Liaoning Province China	Chinese
Mr. WEI Xuan (魏宣)	1-4-3, No. 10 Guilin Street Heping District Shenyang City Liaoning Province China	Chinese
Mr. Joseph LEE (李駒)	Flat B, 16/F, Tower 1 The Coronation 1 Yau Cheung Road Kowloon Hong Kong	American
Mr. JIANG Po (姜頗)	12-1, Dongmenshi Dongbei Street Yizhou Town, Yi County Liaoning Province China	Chinese
Non-executive Director		
Mr. Homer SUN (孫弘)	18 Shouson Hill Road Hong Kong	American
Independent Non-executive Directors		
Dr. LOKE Yu (alias LOKE Hoi Lam, 陸海林)	17/F, Ascot Tower 45-47 Village Road Happy Valley, Hong Kong	Malaysian
Mr. CHAN Kin Sang (陳健生)	Flat A, 23/F Block 8, Cavendish Heights Jardine's Lookout Hong Kong	Chinese
Mr. XU Xiaodong (徐曉東)	Flat 1-1104, No. 13 Dongjiaominxiang Dongcheng District Beijing China	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

Morgan Stanley Asia Limited

Level 46, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

UBS Securities Hong Kong Limited

42/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

Merrill Lynch Far East Limited

15/F, Citibank Tower
3 Garden Road
Central
Hong Kong

Joint Global Coordinators

Morgan Stanley Asia Limited

Level 46, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

UBS AG, Hong Kong Branch

52/F, Two International Finance Center
8 Finance Street
Central
Hong Kong

Merrill Lynch International

2 King Edward Street
London EC1A 1HQ
United Kingdom

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

Joint Bookrunners and Joint Lead Managers

Morgan Stanley Asia Limited

(in the capacity as a Joint Bookrunner in relation to the Hong Kong Public Offering, and in the capacity as a Joint Lead Manager in relation to the Hong Kong Public Offering)

Level 46, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Morgan Stanley & Co. International plc

(in the capacity as a Joint Bookrunner in relation to the International Offering, and in the capacity as a Joint Lead Manager in relation to the International Offering)

25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

UBS AG, Hong Kong Branch

52/F, Two International Finance Center
8 Finance Street
Central
Hong Kong

Merrill Lynch Far East Limited

(in the capacity as a Joint Lead Manager only in relation to the Hong Kong Public Offering)

15/F Citibank Tower
3 Garden Road
Central
Hong Kong

Merrill Lynch International

(in the capacity as a Joint Bookrunner in relation to the Global Offering, and in the capacity as a Joint Lead Manager only in relation to the International Offering)

2 King Edward Street
London EC1A 1HQ
United Kingdom

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road, Central
Hong Kong

ICBC International Capital Limited

(in the capacity as Joint Bookrunner only)
37/F, ICBC Tower, 3 Garden Road
Hong Kong

ICBC International Securities Limited

(in the capacity as Joint Lead Manager only)
37/F, ICBC Tower, 3 Garden Road
Hong Kong

Investec Capital Asia Limited

Suite 3609, 36th Floor
Two International Finance Centre
8 Finance Street, Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisors to the Company

As to Hong Kong and U.S. laws:

Clifford Chance

27th Floor, Jardine House
One Connaught Place, Central
Hong Kong

As to PRC law:

Commerce & Finance Law Offices

6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District, 100022
Beijing
China

As to BVI laws:

Maples and Calder

53/F, The Center
99 Queen's Road Central
Hong Kong

Legal Advisors to the Joint Sponsors and the Underwriters

As to Hong Kong and U.S. laws:

Simpson Thacher & Bartlett

35/F, ICBC Tower
3 Garden Road
Central
Hong Kong

As to PRC law:

Jia Yuan Law Offices

F408, Ocean Plaza
158 Fuxing Men Nei Street
Xicheng District
Beijing
China

Auditors and Reporting Accountants

Deloitte Touche Tohmatsu

Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

Receiving Banks

Bank of China (Hong Kong) Limited

1 Garden Road
Hong Kong

Industrial and Commercial Bank of China (Asia) Limited

33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

CORPORATE INFORMATION

Registered Office	Kingston Chambers PO Box 173 Road Town, Tortola British Virgin Islands
Head Office in the PRC	No. 100 Jiefang West Road Jinzhou City Liaoning Province China
Principal Place of Business in Hong Kong registered under Part 16 of the Companies Ordinance	Unit 6208 62 nd Floor The Center 99 Queen's Road Central Hong Kong
Company's Website	<u>http://www.tianhechem.com</u> <i>(The information on the website does not form part of this prospectus)</i>
Company Secretary	Mr. YEUNG Ming Fai <i>(Solicitor, Hong Kong)</i> Flat A10, 7/F 343 Des Voeux Road West Sai Ying Pun Hong Kong
Authorized Representatives	Mr. Joseph LEE Flat B, 16/F, Tower 1 The Coronation 1 Yau Cheung Road Kowloon Hong Kong Mr. YEUNG Ming Fai Flat A10, 7/F 343 Des Voeux Road West Sai Ying Pun Hong Kong
Audit Committee	Dr. LOKE Yu (alias LOKE Hoi Lam) <i>(Chairman)</i> Mr. Homer SUN Mr. XU Xiaodong
Remuneration Committee	Mr. XU Xiaodong <i>(Chairman)</i> Mr. WEI Xuan Dr. LOKE Yu (alias LOKE Hoi Lam)
Nomination Committee	Mr. CHAN Kin Sang <i>(Chairman)</i> Mr. Joseph LEE Mr. XU Xiaodong

CORPORATE INFORMATION

BVI Principal Share Registrar and Transfer Office	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall Cricket Square, Grand Cayman KY1-1102, Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17/F, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Compliance Advisor	Cinda International Capital Limited 45/F COSCO Tower 183 Queen's Road Central Hong Kong
Principal Banks	<p>Corporate Banking Department, Jinzhou Branch, Industrial and Commercial Bank of China No. 24A, Section 5 of Jiefang Road, Jinzhou, China</p> <p>Corporate Banking Department, Jinzhou Branch, Bank of Communications No. 42, Section 2 of Yunfei Street, Jinzhou, China</p> <p>Corporate Banking Department, Jinzhou Branch, China Merchants Bank No. 85, Shifu Road, Songshan New District, Jinzhou, China</p> <p>Huanghe Road Sub-branch, Dalian Branch, China CITIC Bank No. 683 Huanghe Road, Shahekou District, Dalian, China</p> <p>Qingni Sub-branch, Dalian Branch, China Everbright Bank No. 50-5, Qiqi Street, Zhongshan District, Dalian, China</p>

INDUSTRY OVERVIEW

Certain information and statistics relating to our industry provided in this section have been derived from official government sources. In addition, this section and elsewhere in the prospectus contains information extracted from a commissioned report, or the Frost & Sullivan Report, prepared by Frost & Sullivan, for purposes of this prospectus. See “— About This Section.” We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by us, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers, employees, advisers, agents or representatives or any other party involved in the Global Offering and no representation is given as to its accuracy. Except as otherwise noted, all the data and forecast in this section are derived from the Frost & Sullivan Report.

Furthermore, the information provided by the PRC government sources may not be consistent with the information compiled within or outside China by third parties. Neither we nor Frost & Sullivan makes any representation as to the correctness or accuracy of government or official information contained in this prospectus. Accordingly, such information should not be unduly relied upon.

SPECIALTY CHEMICALS INDUSTRY

Specialty chemical products differ from commodity chemical products in many ways. Specialty chemical products are sold on the basis of their performance or function rather than for composition (in contrast to commodity chemical products) and are generally tailored to meet specific customer requirements. They can be single-chemical molecules or formulations (combinations of several chemicals) whose composition sharply influences the technical performance or functional value of the customer’s product. Specialty chemicals are usually a small part of a customer’s costs and the price of a specialty chemical is usually not the decisive factor in customers’ decisions. The prices for specialty chemicals are usually derived from direct negotiations between the specialty chemical producer and its customers, and are not transparent (as they tend to be for most commodity chemical products). Specialty chemical products typically command premium pricing given their paramount importance in the final product to customers, their relatively inelastic demand and given they comprise only a small proportion of customers’ costs.

Specialty chemicals businesses typically have close customer relationships, relatively high R&D intensity, often require stringent certifications/customer validation, and benefit from high barriers to entry. Products are typically customized for each customer, resulting in significant switching costs, as the product of one specialty chemicals supplier is generally not readily interchangeable with that of any other. In addition to chemical product sales, specialty chemicals companies provide technical service and integrated solutions to their customer base. Therefore, in the specialty chemicals industry, relationships with customers tend to be closer as compared with bulk or commodity chemicals businesses. There is typically a long technical qualification process to be able to supply a new customer. Products and services in the specialty chemicals industry also require specialized marketing, intensive knowledge, patent protection and continuous innovation. The timely introduction of new and enhanced applications is a key driver of future growth, and high growth specialty chemicals players tend to benefit from underlying shifts in technology in their end-markets. Next generation products are often developed in close collaboration with existing customers due to the highly specific requirements.

INDUSTRY OVERVIEW

Given the higher value-add of specialty chemicals to customers as well as the significant barriers to entry, producers typically do not compete on price (unlike commodity chemicals companies), and tend to command higher and more stable margins and stronger pricing power. Specialty chemicals production tends to be less capital intensive than commodity chemicals, and is usually managed to maximize value (rather than being focused on utilization).

Specialty chemicals are used in a broad range of end-markets, including, for example, the automotive, consumer, pharmaceuticals, electronics, plastics, oil and gas, personal care, coatings, aerospace and agrochemical industries.

Within the specialty chemicals products, Tianhe Group focuses on the production of lubricant additives and specialty fluorochemical products.

LUBRICANT ADDITIVES

Overview

Finished lubricants are an important component in the operation of mechanical engines and industrial equipment. Most modern lubricants contain chemical products which improve their efficiency and enhance their performance in the mechanical systems in which they are applied, containing one or more additives blended with one or more base oil. Base Oil is the name given to lubrication grade oils initially produced from refining crude oil (mineral base oil) or through chemical synthesis (synthetic base oil). Lubricant additives make up only a relatively small portion of the total lubricant volume, 2-35%, the remaining being made up of base oil.

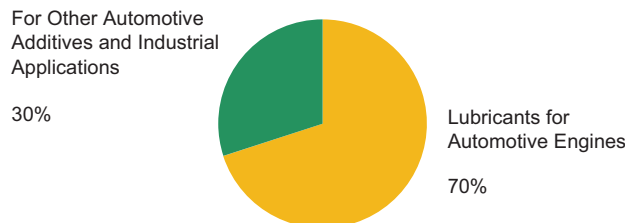
Typical Composition of Finished Lubricants

<u>Components</u>	<u>% by Volume</u>
Base Oil	65-98%
Viscosity Modifier	0-30%
Performance Package	2-20%
Pour Point Depressant	1%

Source: Frost & Sullivan.

However, the additives are high value-adding in terms of performance of the lubricant and serve to protect the engine and driveline system in the longer term. According to Frost & Sullivan, approximately 70% of lubricant additives volume was typically used in the production of lubricants for automotive engines, with other end uses for lubricant additives being in transmission fluids, gear oils, off-road fluids, and in industrial lubricants.

Lubricant Additives Market

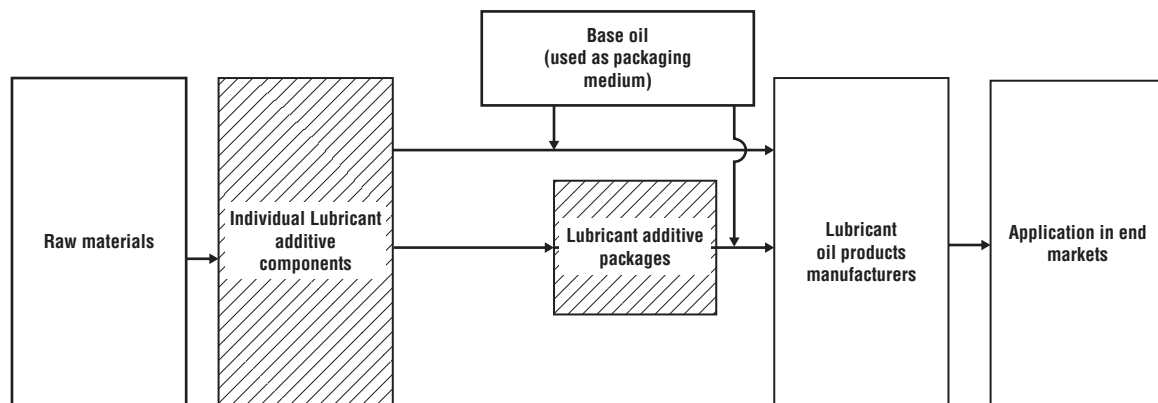


Source: Frost & Sullivan

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The range of lubricant additives is wide, encompassing numerous different additive components, each of which addresses a specific need or functionality required by the lubricant producers. Given the high performance requirements for lubricants, different lubricant additive components are blended together with the base oil to form the lubricant additive packages and further to final lubricant products. Historically, lubricant additive producers only supplied individual components to the lubricant producers, who then mixed the different additives and the base oil to create its final lubricant product. As the technological specifications of the lubricant additives increased overtime, the lubricant producers outsourced most of the blending and formulation activity to the lubricant additives producers. As a result, the major global lubricant additives producers are increasingly supplying lubricant additive packages rather than individual components to lubricant producers today. These additive packages are highly customized to the specific applications and requirements of individual customers, and require advanced technical expertise to produce, and hence achieve premium pricing over individual components. Producers are engaged in extensive testing and qualification of their products. Production quality control is very important for suppliers and consumers of lubricant additives as impurities in the additives can reduce or prevent the performance of the lubricant and can cause damage to engines and machines.

Simplified Lubricant Additives Value Chain



 The Group's operations

The lubricant additives manufacturers can be categorized into three groups: Comprehensive/multi-line lubricant additives manufacturers, limited-line lubricant additives manufacturers and additive formulation manufacturers.

- **Comprehensive/multi-line lubricant additives manufacturers** produce all of the major additive types, and provide formulations of these additives into packages to the lubricant industry for use in large-volume automotive applications. Some of the comprehensive manufacturers also provide additives for various industrial applications. Comprehensive manufacturers have an advantage over limited-line manufacturers in that they are able to supply customized packages to lubricant producers, thereby acting as a one-stop shop for their customers. Manufacture of packages requires significant technical expertise in formulation (to ensure the combination of additives perform optimally) as well as significant scale. This creates barriers to entry for limited-line manufacturers. Examples of such companies are Lubrizol, Infineum, Chevron Oronite, NewMarket Afton and Tianhe Group.

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- **Limited-line manufacturers** typically produce a few types of additives and generally do not manufacture packages. Most of these manufacturers sell their additives to the comprehensive manufacturers for use in the latter's formulated additive packages. However, some direct sales of additive components to lubricant manufacturers do occur. Examples of such companies are Chemtura, BASF, Lanzhou Lubrizol, Wuxi South and Jinex.
- **Additive formulators** concentrate on making formulations from additives they produce or buy along with other components. This group occupies a relatively small portion of the total volume and value of the entire lubricant additives industry.

Principal categories of lubricant additives

Lubricant additives achieve their critical technical role by altering the physical and chemical characteristics of the lubricant oil to withstand their extreme operating environments. They also impart additional functionalities to the lubricant oil such as self-cleaning and foam inhibition. As a result, lubricant additives improve the efficiency of engines by lowering fuel consumption and improving durability, hence, making them more environmentally friendly.

Detergents

Detergent additives are used in lubricant oils both to neutralize the acidic by-products of the combustion and the lubricant oxidation, and to remove the particles and contaminants, which have limited solubility in oil. Thereby detergents minimize the formation of deposits on the engine and transmission parts.

Dispersants

Dispersants perform the same function as the soap component of detergents, by enabling the dissolution into the base oil of previously insoluble particles. Due to a higher molecular weight, dispersants are more effective than detergents at suspending the oil residues; the damaging suspended products are removed from the oil when it is changed.

Oxidation inhibitors/antioxidants

Additives which limit the oxygen initiated degradation of the lubricant oil and which severely reduces its performance.

Viscosity modifiers

The viscosity of the lubricant generally decreases with an increase in temperature to the point it loses its ability to maintain a lubricating film on surfaces. Viscosity modifiers are polymers which maintain the lubricating ability of the oil and ensure that the oil does not flow away from the surfaces which are intended to be lubricated. These additives can increase the viscosity of oils at both low and high temperatures but to a varying degree and are often used in multi-grade oils.

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Pour point depressants

Many petroleum based fluids contain waxes which at low temperatures can crystallize to form solid network structures which can absorb oils and impede its flow. Pour point depressants prevent the formation of the crystals and permit the oil to flow at low temperatures.

Corrosion inhibitors

Corrosion inhibitors protect metal surfaces against exposure to oxygen, water, acids, bases and salts.

Anti-wear agents and extreme-pressure additives

These additives form a durable protective film which can withstand extreme temperatures and pressures by thermo-chemically reacting with metal surfaces. They minimize direct contact between metal surfaces, thereby protecting them from scoring and seizing.

Friction modifiers

Friction modifiers reduce friction by forming a durable low-resistance lubricant film on metal surfaces. These products also reduce wear, especially at low temperatures where normal anti-wear agents are inactive and improve fuel efficiency.

Foam inhibitors

The formation of foam can impede the functioning of the lubricant. By trapping air, the foam can promote lubricant oxidation, obstruct narrow passages and reduce the lubricant's cooling ability. Foam inhibitors have limited oil solubility and perform by lowering the surface tension of foam bubbles, thereby reducing the formation of foam.

Other

In addition to these nine principal categories, other categories of lubricant additives include emulsifiers, demulsifiers, seal well agents, dyes and odor masks.

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Packages

Packages are combinations of the above mentioned additive components which have been specifically formulated to form a complete solution for engines and other applications.

Lubricant additives	Major Additives Segments									
	Detergents	Dispersants	Oxidation Inhibitors	Viscosity Modifiers	Pour point depressants	Corrosion Inhibitors	Anti-wear Agent/EP additives	Friction Modifiers	Foam Inhibitors	Packages
Multi-Line										
Lubrizol	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Infineum	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Chevron Oronite ...	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
NewMarket Afton ..	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tianhe Group	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Limited Line										
Chemtura	✓		✓			✓		✓		
Lanzhou Lubrizol ..	✓	✓	✓	✓	✓	✓				✓
Wuxi South	✓	✓	✓	✓	✓	✓	✓			
Jinex				✓						
BASF			✓			✓	✓	✓		

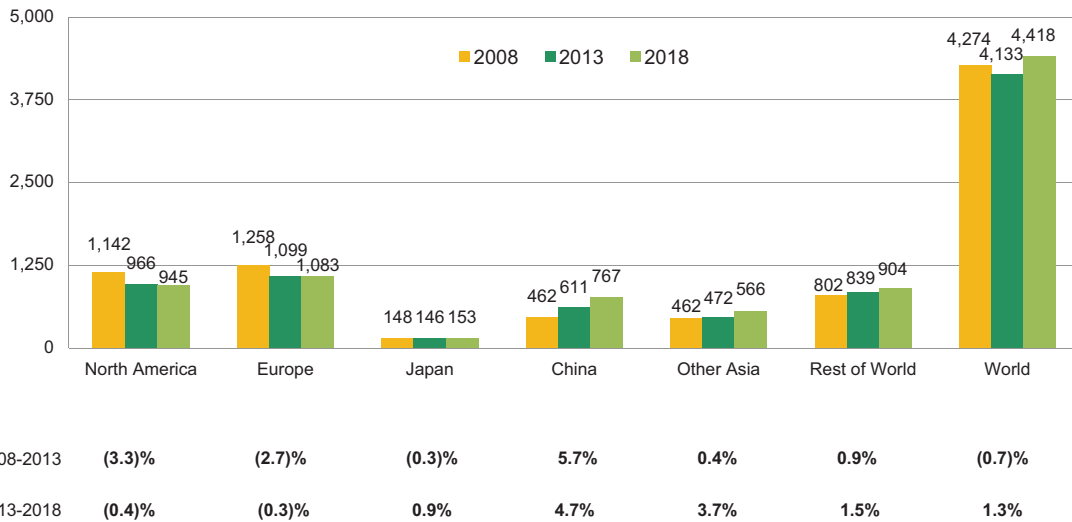
Source: Frost & Sullivan

Global market for lubricant additives

According to Frost & Sullivan, the global lubricant additives market in 2013 reached US\$15.6 billion, corresponding to a total consumption volume of approximately 4.1 million tonnes. Frost & Sullivan predicts that total consumption volume will increase to 4.4 million tonnes by 2018 (a CAGR of 1.3%). North America, Europe and the PRC are currently the largest markets for lubricant additives consumption accounting for 64.8% of the global total volume. Global consumption of lubricant additives remained relatively stable between 2008 and 2013 at 4.1 million tonnes in 2013 with a CAGR of (0.7%). The small drop in consumption was largely a consequence of the 2008-09 global recession and the European sovereign debt crisis of 2011; however emerging countries such as China still showed a significant increase in volumes consumed over this period. The global economy as well as lubricant consumption is reviving and the consumption of lubricant additives is expected to increase to over 4.4 million tonnes in 2018 with a CAGR of 1.3% between 2013 and 2018, boosted by increased demand in the emerging economies. In particular, China's lubricant additives consumption is expected to increase significantly faster than other regions, by 4.7% per annum between 2013 and 2018.

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World Lubricant Additives Consumption, CAGR 2008A-13E, 2013E-2018E (kt)



Source: Frost & Sullivan

Growth in the global lubricant additives market is primarily driven by the increase in vehicles produced and the increase in total mileage driven, particularly in emerging countries. According to Frost & Sullivan, annual new vehicles demand in China is expected to increase from 21.7 million units to 36.4 million units per annum (a CAGR of 10.9%). In addition, the need to sustain lubricant performance over a longer period has also contributed to increased demand for more durable lubricant additives. Increasing popularity of the universal lubricants that meet both diesel and gasoline performance levels also requires better quality additives. Other factors driving growth in the lubricant additives market are lubrication-for-life gear lubricants and hydraulic fluids that require additives to sustain performance, and developments in engine quality and efficiency. High quality lubricants, aided by lubricant additives, improve the efficiency of engines and make them more environmentally friendly.

Various new trends in lubricant additives technology are also affecting the sector landscape. Due to the current focus on climate change and greenhouse gas emission reduction, high revenue generating lubricant additives that are environmentally friendly, such as bio lubricants, are important to increase the efficiency of engines and the cleanliness of the lubricant. In addition, high revenue generating lubricant additives can be used to reduce waste in the engine systems and have more long-drain capabilities. Further trends include the development of multi-functional lubricant additives, shift in product mix (such as the development in heavy-duty diesel engine oil), continued implementation of government policies to improve fuel economy of vehicles, and changes in application trends.

There is an ongoing trend towards stricter emission regulation of automobiles which requires the manufacturers of lubricants to constantly improve the quality of their products. There are three main international approaches in setting up vehicle emission standards such as European, American and Japanese. Most countries in Asia (including the PRC) have tended toward the European standards for new cars and trucks, relying largely on the UN Economic Commission for Europe (ECE).

Vehicle and engine emission standards are adopted at the national level in the PRC by the Ministry of Environmental Protection (MEP). In addition to National Standards, which are mandatory nationwide, Environmental Standards may apply to industries that have an impact on the quality of the

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environment, and local standards may be issued by local governments. The first emission regulations for motor vehicles in China became effective in the 1990s. PRC standards are based on European regulations.

Global Automobile Industry: Emission Standards and Implementation Dates

Europe		China		
Standard	Implementation Date	Standard	Type	Implementation Date
Euro I	1994.10	China I	All Vehicles	2003.01
Euro II	1998.01	China II	All Vehicles	2005.07
Euro III	2000.01	China III	All Vehicles	2007.07
Euro IV	2008.01	China IV	Gasoline	2014.01
Euro V	2010.01		Diesel	2015.01
Euro VI	2014.01	China V	Gasoline	2018.01
			Diesel	2018.01

Source: Economic Commission for Europe

Source: The Ministry of Environmental Protection

In addition, large metropolitan areas, including Beijing and Shanghai, have adopted more stringent regulations on an accelerated schedule, ahead of the rest of the PRC. Beijing implemented Euro IV standards for light-duty vehicles in 2008 and introduced Euro V-based standards from 2012.

Emissions control initiatives arise from governmental regulations, to which the OEMs respond through hardware re-design. The new design requires high-quality lubricants to be compatible with the emissions control systems, such as catalytic converters (low or no phosphorus) and diesel particulate filters, and perform effectively across a broad temperature range. There is also an increased need for low-temperature dispersancy to minimize engine sludge in stop-and-go driving, and higher engine operating temperatures that require better antioxidants and in larger amounts.

An additional environmental concern is fuel economy, translating into the need for fuel efficient lubricants. To address this, OEMs are optimizing engine design and weight, installing lighter transmissions, and permitting dual fuel use. One of the key requirements for such a fuel efficient lubricant is friction durability, i.e. to maintain their friction-reducing ability over a broader temperature range and over the oil's service life.

These higher performance requirements drive the demand for better lubricant additive components and better packages, and lead to an increasing share of additives used per liter of lubricant, especially in developing countries where the overall lubricant quality is still inferior to that available in the developed countries. In that context, the growth of emerging economies, particularly the PRC and India, is driving demand for lubricant additives as industrial equipment production increases and supported by the trend in emerging markets towards higher value lubricants that require more and higher quality additives.

In many cases, the goal of emission regulation and fuel efficiency cannot be met by the use of high-performance additives alone and a base oil with low viscosity and exceptional stability is needed. Base oil that possess these attributes belong to Group II, III and IV, or their blends with Group V oils. Tianhe Group will also start to produce some Group II and III base oil in 2014.

Prices for Lubricant Additives

The value of the global lubricants additives market increased significantly during the 2008-2013 period (from US\$ 10.0 billion to US\$ 15.6 billion) principally due to price increases for lubricant additives.

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Global additive prices have been increasing since 2002 due to new lubricant performance specifications emanating from changes in equipment design by OEMs and to meet government-imposed fuel economy and emissions requirements. Such changes require new formulations that use newly-developed and more expensive additives. In addition, plant closures by leading European manufacturers eliminated some capacity.

According to Frost & Sullivan, the average global prices in 2013 relative to those in 2008 were higher by 10-15% for individual additives components and by 15-25% for additive packages. Barring any unexpected shocks to the global economy, prices are expected to increase similarly between 2013 and 2018.

The prices of lubricant additives reflect both their performance and application. Additive packages command premium prices over individual components since these require greater research, development, testing, know-how technical service, and specific customization to individual customer needs.

The certification process

Lubricant additives manufacturers must obtain both supplier certification and product certification, by both lubricant producers and OEMs, before its products can be used in the automotive supply chain.

Supplier certification is only granted to suppliers with a proven track record of operating history and experience, R&D capability and quality assurance systems. The supplier certification process starts with the review of the qualifications of the lubricant additives manufacturers by lubricant companies. The review involves the assessment of the operating history of the lubricant additives manufacturers, their experience in providing key services, the specialization of their production equipment, their R&D capabilities and quality assurance systems. Once the initial review is passed, the lubricant additives manufacturer will obtain an initial qualification that allows it to supply the automotive supply chain. This initial stage takes approximately 16 to 20 months to complete.

Product certification process is highly complex, time-consuming (taking up to 18 to 24 months) and expensive, and involves a series of screening processes and complex product tests, such as engine tests under various conditions for prolonged periods. The product certification process starts when the lubricant additives manufacturer and the lubricant manufacturer reach an understanding about a product specification. The lubricant additives manufacturer provides product R&D materials to the lubricant manufacturer for inspection. The lubricant manufacturer tests the product specification according to its standards and, if results are satisfactory, the lubricant additives manufacturer obtains a product specification certification, and enters the product certification stage. The second stage takes approximately eight months to complete.

The parties then complete technology R&D tests and perform engine tests with the finished lubricant. The lubricant undergoes additional testing by the automobile manufacturer and is used in road tests. This stage takes approximately five to 15 months depending on whether the car model is an existing model or a new model. At the conclusion of the third stage, the lubricant additives manufacturer receives a product certification from the automobile manufacturer.

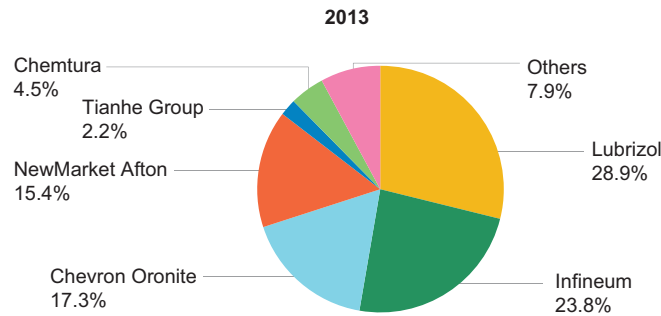
The necessity, rigorousness, complexity and long duration of the certification process make it difficult for new competitors to enter the industry within a short period of time, and are also instrumental in forming strong relationships with the lubricant manufacturers.

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Competitive environment

Globally, the lubricant additives market is dominated principally by a small number of players. These players include the five comprehensive multi-line lubricant additives producers, Lubrizol Infineum, Chevron Oronite, NewMarket Afton and Tianhe Group as well as large limited line lubricant additives producers such as Chemtura. The market for lubricant additives is characterized by high barriers to entry as producers need high levels of technical expertise to produce lubricant additive components and even greater levels of technical expertise to formulate packages. In addition, building up long-term customer relationships is important for lubricant additives producers, especially when it relates to bespoke additive packages, which also require trusted relationships with OEMs. Furthermore, large investments need to be made in order to build up the necessary production scale to be able to enter the market for lubricant additives, and in particular for additive packages. Lastly, given significant environmental regulation in the sector, any new entrant will require extensive testing of their products to qualify for a license.

Global Lubricant Oil Additives (LOA) Industry: Market Share of Global LOA Producers by Revenues (US\$)



Source: Frost & Sullivan

Key Barriers to Entry into the Lubricant Additives Industry

The lubricant additives industry is characterized by a number of significant barriers to entry, including:

- **Research, Development, and Testing Expertise:** A strong R&D department and a technically trained sales force are crucial to the success of an additives producer. Extensive research programs and facilities, access to independent testing laboratories and the ability to sponsor field performance (including non-specification tests) are important to develop an understanding of the unique requirements for lubricant additives, particularly for use in automobile applications.

As customer requirements evolve, new products with higher technical performance are required; hence the leading suppliers are constantly developing new additive components and the additive packages through strategic long-term research. This effort not only pays off when a new product is needed but also provides discoveries that become a part of a company's intellectual property, which they keep tightly. Strong patent position in specific additive components and packages creates a strong barrier to entry for new players. Moreover, the expertise needed for qualifying a new product through extensive testing and its high cost are significant hurdles for new entrants. In particular, skill in blending high

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quality, competitive additive packages, and obtaining necessary approvals for lubricants based on these packages differentiates large successful producers from other small players.

Tianhe Group has an established track record of product and process innovations in the lubricant additives industry in the PRC, with (i) dedicated R&D facilities, (ii) dedicated scientists, and (iii) other dedicated R&D staff. According to Frost & Sullivan, Tianhe Group is the only producer in the PRC with the ability to produce long-chain linear alkyl benzene sulfonic acid, the starting material for a number of high revenue generating lubricant additives. For more information about the chemical features of long-chain linear alkyl benzene sulphonic acid, please refer to the section headed “Business — Business and Products”.

- **Name/Brand Recognition & Customer Loyalty:** Customers select suppliers based on a number of criteria, including size and track record. Typically, large suppliers with a long track record are considered suppliers of high quality products and are able to achieve premium pricing. Their larger market shares grant them credibility and easy customer acceptance. Moreover, switching suppliers/products is not easy given the limited number of producers in the industry, and the particular specifications of each products, and switching will have requalification cost and time penalty. Hence, most customers often stay loyal to their suppliers.

According to Frost & Sullivan, in 2013, Tianhe Group was one of only five comprehensive multi-line lubricant additives manufacturers in the world, the largest producer of lubricant additives headquartered in the PRC and the sixth largest producer of lubricant additives in the world in terms of revenue, giving it strong name/brand recognition with customers. Tianhe Group also produces the broadest range of lubricant additives in the PRC. As of December 31, 2013, Tianhe Group was capable of producing 93 lubricant additives, including 59 types of individual lubricant additive components and 34 lubricant additive packages. For many of these additives, Tianhe Group is the major and sometimes the only Chinese manufacturer.

- **Customer Relationships and Network Effect:** Lubricant additives are usually sold through exclusive long-term agreements with customers. This is because a lubricant additive package often needs to be customized for a customer’s base oil, and in the absence of an exclusive arrangement, the additive manufacturer absorbs the expense of customizing and testing. Moreover, strong connections with OEMs, other additive companies, lubricants producers, and end-users are critical, as well as with standard-establishing industry organizations, such as American Petroleum Institute, European Automobile Manufacturers’ Association, International Lubricants Standardization and Approval Committee, Japanese Automotive Standards Organization and American Society for Testing and Materials, and others to stay abreast to the industry needs and developments. Strong customer technical service support is also a critical success factor in this industry.

Tianhe Group has been a critical supplier in the PRC to both CNPC and Sinopec (and their respective subsidiaries) since the inception of the Company, helping to ensure that their branded lubricant products, such as “Kunlun” (昆仑) and “Great Wall” (长城), achieve the desired performance. In addition, the Group has also become qualified to supply products to various leading global lubricant producers, including Total, JX Nippon Oil & Energy and a multinational lubricant manufacturer in Europe.

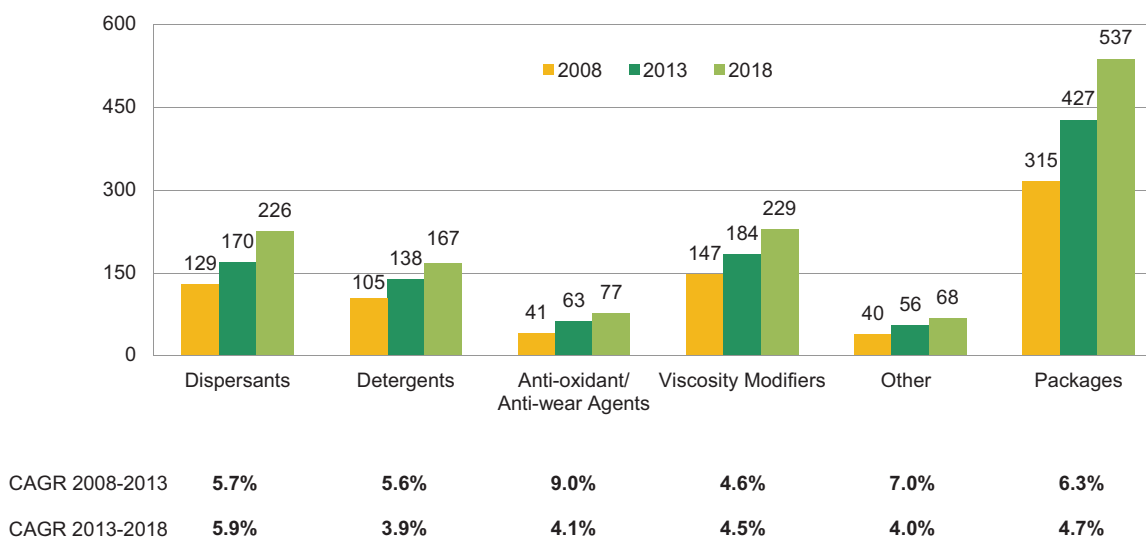
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- In-elastic Demand and Pricing:** Lubricant additives customers tend to be price-insensitive since these products are considered technologically advanced materials. As a result of which, utilizing low-price entry strategies would lead a potential new entrant's products to be considered of inferior in quality. Moreover, with lubricant additive packages, which are often differentiated products tailored for a specific customer, producers can charge premium prices. The premium price reflects the higher R&D, testing, know-how, and customer service involved in manufacturing lubricant additive packages as well as the performance and hence value enhancing characteristics it provides to the customer. While often critical for the performance, additive packages constitute a small share of the overall cost of lubricants.
- Economies of Scale & Capital:** The discovery, development, and qualification costs for lubricant additives are very high, and therefore manufacturers attempt to sell them to as large a customer base as possible to spread their costs and become more cost-competitive. Furthermore, by having a broad portfolio of products, producers can maximize their customer reach. This is also an initially capital-intensive industry, given the cost to erect buildings, procure equipment, and set-up manufacturing facilities. Moreover, investment in high growth regions, such as China, Asia (excluding China and Japan), and Latin America, is critical to capture the emerging opportunities globally.

The PRC Market for Lubricant Additives

According to Frost & Sullivan, the PRC market is forecast to be the fastest growing end market for lubricants and lubricant additives over the next five years. According to Frost & Sullivan, the PRC consumption of lubricant additives in 2013 was 611,000 tonnes and this is forecast to grow at a CAGR of 4.7% to reach 767,000 tonnes by 2018. According to Frost & Sullivan, automotive uses accounted for 74.8% of lubricant additives consumption by volume in the PRC in 2013, industrial uses had a 12.3% share and marine uses made up 12.9% of total consumption. In the PRC, viscosity modifiers and dispersants are the two biggest types of lubricant additives consumed, accounting for 57.9% of total single lubricant additives consumption in 2013 and these two types are expected to grow at 4.5% and 5.9%, respectively between 2013 and 2018.

Chinese Lubricant Additives Consumption, CAGR 2008A-2013E, 2013E-2018E (kt)



Source: Frost & Sullivan

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The expected strong growth in demand for lubricant additives is mainly because the PRC is believed to show the highest growth in the automobile market driven by the positive economic development and increasing consumer disposable income and which directly impacts the demand for lubricant products. The annual demand for new vehicles in the PRC rose sharply since 2008 from 9.4 million units to 21.7 million units per annum in 2013, with a CAGR of 18.2%, and is expected to grow continuously to 36.4 million units per annum by 2018, representing a CAGR of 10.9% from 2013 to 2018.

Driven by stricter emission regulations and an improvement of the automotive engine and driveline technologies largely impacted by the trend towards higher fuel efficiency, the demand for lubricant additives is expected to grow even beyond the demand for lubricants as more, and especially higher, quality additives will be needed. For example, in North America, heavy-duty diesel engine oil and small engine oil contain on average approximately 22.8% and 15.4% additives respectively, whilst in China, it is only 20.0% and 5.7%, respectively, at present. While currently producers in the PRC focus on producing lower-value additives for lower-end vehicles, the PRC will have to transition to higher quality additives as automotive technology develops with growing income and innovation in the OEM sector. A few examples will illustrate this point further.

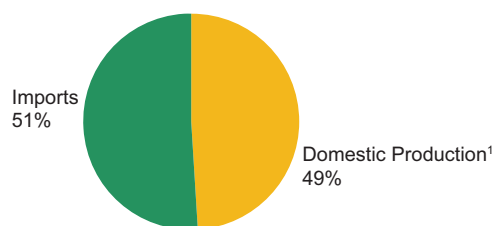
- The quality of the lubricants and additives depends upon the type of transmissions that local OEM companies will develop and use. At present, all transmissions used in China are imported. Among the automatic transmission types used in China (automatic transmission (“AT”), continuously variable transmission (“CVT”), dual-clutch transmission (“DCT”)), ATs account for more than 80% of the PRC market. The market is expected to be growing at 35%, far exceeding the growth rate of finished automobiles. Thus, when the Chinese OEMs start developing transmissions, there will be a significant increase in demand for advanced additives.
- As discussed above, China has implemented emission control limits equivalent to Euro 4 in 2013, and may upgrade this standard in the future. The OEMs are already considering exhaust gas after-treatment options to ensure that their vehicles comply. One added complication in the PRC is the country’s variable fuel quality (sulphur content ranges from 70 ppm to almost 1400 ppm). This means that the OEMs must select their pollution abatement systems with care to ensure that their systems not only meet current and potential future emission standards but also offer reliable operation to their owners. With these emission standards, the use of diesel particulate filters (DPFs) seems inevitable both for new cars and trucks as well as retro-fitted to older vehicles. This will require high quality lubricants to be compatible with the DPF system.

Increasingly, the PRC specialty chemicals producers are developing additive packages as there is rising demand in the PRC market. The key barriers to entry in the PRC for additive package manufacturers are relationships with customers, relationship with automotive OEMs, production capacities of manufacturing facilities and technical expertise.

The main customers of lubricant additives are the finished lubricant manufacturers, such as CNPC and Sinopec and their respective subsidiaries. Due to the high levels of technological expertise required to produce lubricate additives and packages, China relies heavily on imports to satisfy its demands. In 2013, 51% of the PRC demand for lubricant additives was satisfied through imports from overseas suppliers. This presents an opportunity for high quality LOA producers to displace imports.

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Breakdown of lubricant additives consumption by volume in China 2013



Source: Frost & Sullivan

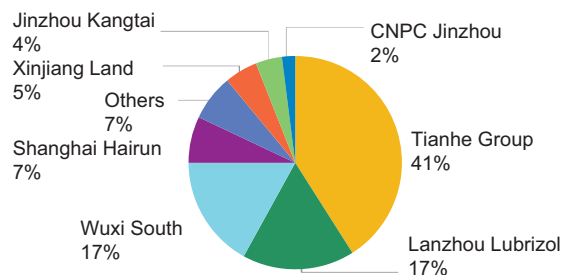
Note:

1. Exclude exports

There are approximately 1,000 suppliers of lubricant additives in the PRC; most of these are small scale producers who focus on single lines of additive components or additive intermediaries used in the production of components. Several larger producers are either affiliated with the international lubricant additives producers or are subsidiaries of end lubricant producers such as CNPC and Sinopec.

Tianhe Group is the largest producer of lubricant additives in the PRC market with a 41.0% share by revenue in 2013. Other large domestic PRC producers include Lanzhou Lubrizol (with a 17.0% market share by revenue in 2013), Wuxi South (with a 17.0% market share by revenue in 2013), Shanghai Hairun (with 7.0% market share by revenue in 2013), Xinjiang Land (with a 5.0% market share by revenue in 2013), Jinzhou Kangtai (with a 4.0% market share by revenue in 2013), and CNPC Jinzhou (with a 2.0% market share by revenue in 2013). Lanzhou Lubrizol is a joint venture between Lubrizol and a subsidiary of CNPC. CNPC Jinzhou Petrochemical Company Additive Plant is affiliated with CNPC, and Wuxi South Petroleum Additive Company is affiliated with Sinopec.

China Lubricant Additives Producers' Market Share by Revenue for the Year Ended December 31, 2013



Source: Frost & Sullivan

According to Frost & Sullivan, the Group is also the only producer in the PRC that produce the entire spectrum of lubricant additive components and are a comprehensive manufacturer. The majority of other producers in the PRC are limited line producers of lubricant additives.

Prices for Lubricant Additives in The PRC

The prices of the PRC lubricant additives are lower than prices of the additives on the international markets. Prices of individual additives vary with the quality, purity, technical specifications and complexity of the chemicals. Viscosity improvers are generally the least expensive additives with average price per kilogram of US\$2.20-2.50 in the PRC in 2013. Detergents and

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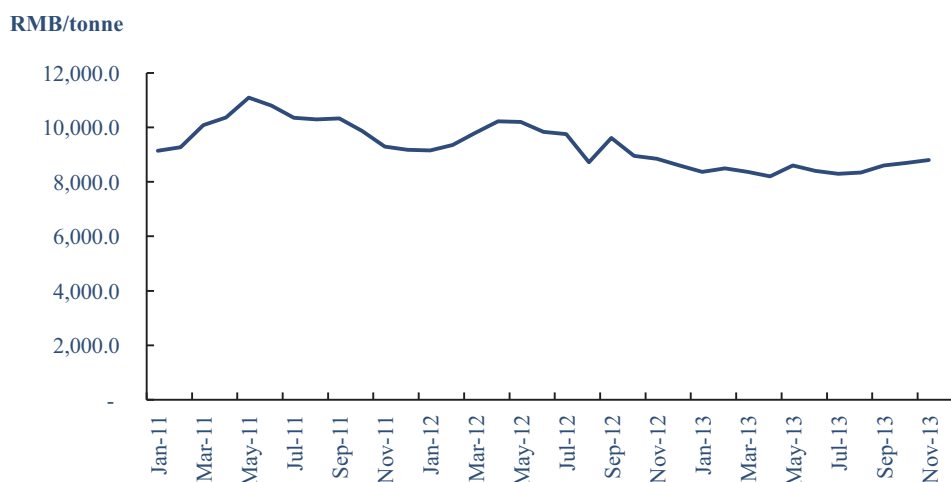
dispersants were priced on average at US\$3.00-3.45 and US\$2.80-3.25 per kilogram in the PRC in 2013, respectively, and inhibitors and anti-wear agents cost on average US\$3.50-4.00 per kilogram in the PRC during the same period. Additive packages are more expensive per kilogram than components due to the technical requirements in production. Frost & Sullivan predicts that prices of all lubricant additives in the PRC will increase over the next five years as demand increases.

Raw Materials

Lubricant additives are highly technical products requiring a broad number of specialized ingredients, many of which have no readily observable market price. However, base oil is an important constituent of cost given its role as a packaging medium for both single additive components and additive packages.

Generally, the base oil price in China has fallen from an average price of RMB10,008 per tonne in 2011 to an average price of RMB8,472 per tonne in 2013. On a monthly basis, prices reached a low point of RMB8,200 per tonne in April 2013 and have slightly risen since to reach RMB8,800 per tonne at the end of 2013.

Domestic Price of Base Oil (China), 2011-2013



Source: Frost & Sullivan

SPECIALTY FLUOROCHEMICALS

Overview

Based on the unique properties of the fluorine atom, specialty fluorochemicals are chemicals possessing various characteristics that other organic products do not possess and cannot achieve. Given these characteristics, specialty fluorochemicals can be applied to materials to achieve the following desired effects: stain resistance, water and oil resistance, chemical/electrical inertness, resistance to heat and cold, UV resistance, low surface tension and low coefficient of friction. Substitute products for specialty fluorochemicals provide only a smaller sub-segment of these performance characteristics. This makes specialty fluorochemicals high revenue generating niche products applicable in a wide variety of consumer and industrial markets (such as coatings, oil and gas, textiles, healthcare, crop protection, electronics and automotive).

Fluorspar, the key starting raw material for specialty fluorochemicals, is mined and purified, and then mixed with anhydrous sulphonic acid (H_2SO_4) and heated to produce hydrogen fluoride (HF)

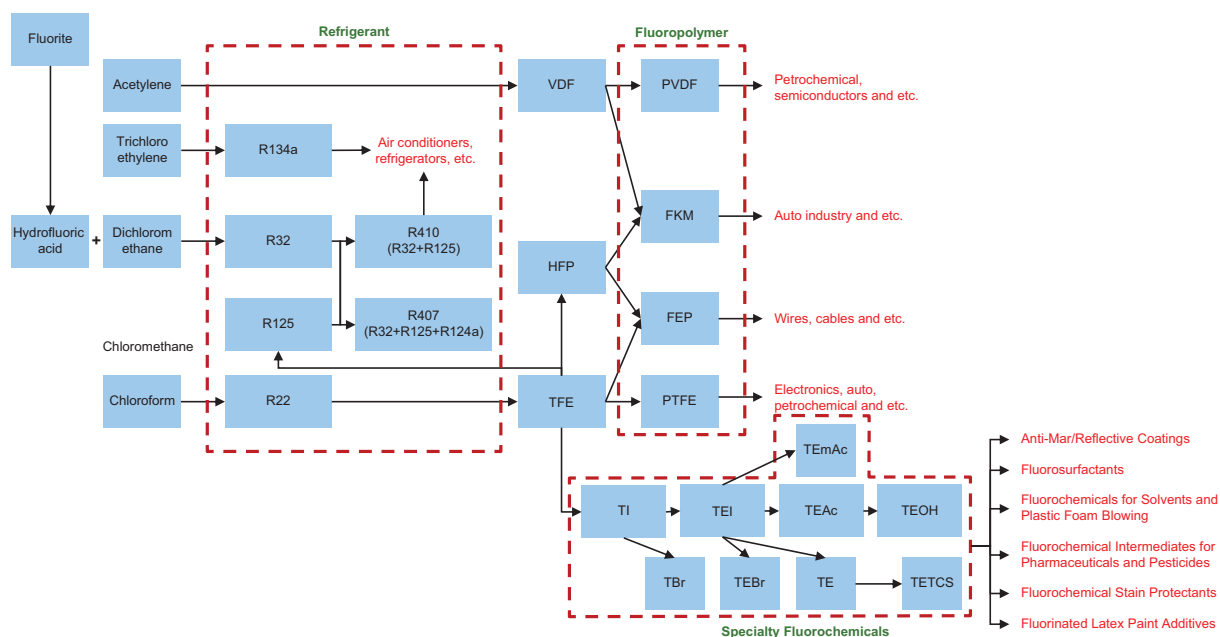
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on a commercial scale. Hydrogen fluoride is a chemical intermediate for the production of most fluorine-containing compounds which include inorganic products such as aluminum fluoride (used in aluminum smelting), and organic products such as fluorochemicals. Tianhe Group principally participates in the specialty fluorochemicals part of the industry which accounts for approximately 28% of global hydrogen fluoride usage, according to Frost & Sullivan.

While refrigerants and certain types of fluoropolymers are being increasingly commoditized, specialty fluorochemicals are characterized by the high value such as high stability, low refractive index, strong solvency, and chemical resistance, water/oil and stain repellence etc. Thus specialty fluorochemicals can be used in a wide range of downstream applications.

The fluorochemicals produced by Tianhe Group are principally specialty fluorochemicals, as well as some TFE, which is an organofluorine intermediate for producing specialty fluorochemicals, and is focused principally on deriving the most value possible from the TFE monomer. Tianhe Group is not involved in the commodity refrigerants part of the industry.

Fluorochemical Industry Value Chain Analysis



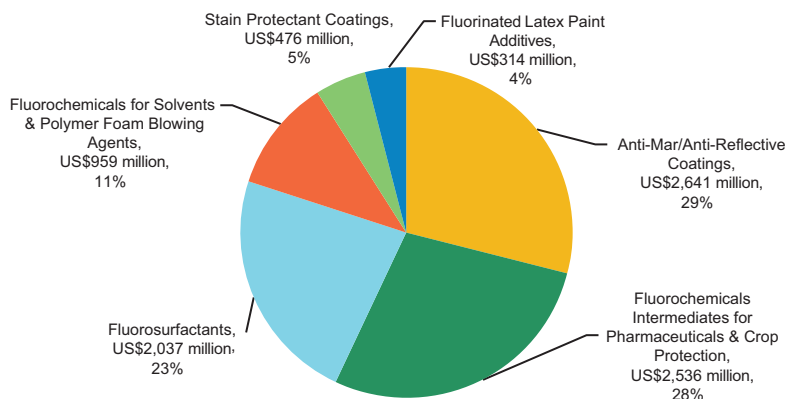
Source: Frost & Sullivan

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Key applications/products for specialty fluorochemicals

Specialty fluorochemicals constitute the higher value end of the fluorochemicals industry. Final specialty fluorochemical products can be classified into six principal categories:

Global Specialty Fluorochemicals Revenue for the Year 2013



Source: Frost & Sullivan

Anti-mar/anti-reflective coatings

Anti-mar/anti-reflective coatings accounted for 29.5% of the total global market for specialty fluorochemicals in 2013. Anti-mar/anti-reflective coatings are applied as the top layer on glass and plastic surfaces to resist the absorption of contaminants such as dirt, oil, moisture and dust. The two leading applications for anti-mar/anti-reflective coatings are for eyeglasses and touch screen displays.

Fluorochemical intermediates for pharmaceuticals and crop protection

Fluorochemical intermediates, used in pharmaceuticals and crop protection chemicals, accounted for 28.3% of the total global market for specialty fluorochemicals in 2013. The fluorine atom has become essential to the pharmaceutical industry because of its high electronegativity, which causes a large polarizing effect. In biological systems fluorine's lipophilic nature causes molecules containing it to become more fat-soluble. Since the membranes of cells allow such fat-soluble substances to pass, the efficacy of fluorine-containing drugs is greatly enhanced.

Fluorosurfactants

Fluorosurfactants accounted for 22.7% of the total global market for specialty fluorochemicals in 2013. Widely used in paints, including latex and coating formulations, fluorosurfactants improve performance through enhanced wetting and the reduction of surface holes and cracks. Other uses for fluorosurfactants include waxes, polishes, oil-field applications, and fire-fighting foams. In particular, fluorosurfactants can be used in harsh environments including extreme temperatures where their characteristics would remain unaffected.

Fluorinated solvents and polymer foam blowing agents

Fluorinated solvents and polymer foam blowing agents accounted for 10.7% of the total global market for specialty fluorochemicals in 2013. Polymer foam blowing agents are widely applied in the

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manufacturing of polymer foams. The most valuable application for foamed polymers is for insulation in refrigerators and freezers. Foamed polymers are also used to sheathe buildings during original construction.

The most common application of fluorinated solvent is in vapor degreasing for the electronics industry. Other applications include precision cleaning for cameras and optical equipment, manufacturing and maintenance of aircrafts.

Stain-protectant coatings

Stain-protectant coatings accounted for 5.3% of the total global market for specialty fluorochemicals in 2013. Stain-protectant coatings are applied to many finished textile goods to provide water, oil and stain repellence. Water repellent coating is usually treated in functional and technical textiles, while oil, soil and stain protection coatings are essential for carpet treatments, car seats and many outerwear garments. Although typical formulation include fluorochemicals, silicones, polyurethanes, and waxes, the overall trend reveals a preference for fluorochemicals since they provide combined benefits of water, oil and stain repellence.

Fluorinated latex paint additives

Fluorinated latex paint additives accounted for 3.5% of the total global market for specialty fluorochemicals in 2013. Fluorinated latex paint additives create an easy to clean surface that resists soil adhesion, and provide a high quality coating performance that can be guaranteed for a long time, improve wetting and provide better inter-coat adhesion. They are typically used in demanding outdoor environments, such as auto refinishes, marine coatings and high-rise towers.

Environmental and other regulations

Governments across the world have recently raised concerns over the global warming effects of many fluorinated products and the health effects resulting from the bioaccumability of PFOA and PFOS. As a result, specialty fluorochemicals manufacturers are now required to adjust their manufacturing technology to produce products without any PFOA/PFOS by-products in the process, or any risk of degradation into PFOA/PFOS. There exist a number of regulatory initiatives in different countries that affect the production of specialty fluorochemicals:

- **United States:** Since January 2006, Arkema, Asahi Glass, BASF, Clariant, Daikin, 3M, DuPont, and Solvay voluntarily joined the global 2010/2015 PFOA Stewardship Program, whereby they have committed to reduce PFOA and related chemicals globally in both facility emissions and product content by 95% by 2010, and to eliminate altogether emissions and product content of these chemicals by 2015. Since no technology sharing agreement was included in the Program, each producer has to find their route to achieve the goals of the program. Additionally, since December 2013, the US EPA added PFOS and long-chain PFCAs to the Toxic Substances Control Act (TSCA), thereby legally prohibiting the use of these materials outright, except in few specific circumstances.
- **Europe:** Since 2006, PFOS has been highly restricted in Europe by Directive 2006/122/EC. In addition, though there is so far no restriction on the uses of PFOA and long-chain PFCAs; PFOA and some derivatives are classified as Substance of Very High Concern (SVHC) under the REACH-regulations EC 1907/2006. In Norway, a ban on manufacture, import, export and sale of PFOA in consumer products will come in effect in

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June 2014, and it is expected that such restrictions are likely to be extended across the EU and European Economic Area soon.

- **China:** EU PFOS Directive has been introduced to China. The PRC's 12th Five Year Plan's Guiding Catalogue for Structural Adjustment of Industry, released in June 2011, also proposes the development of substitutes for PFOA and PFOS. This brings the PRC closer to US and EU standards of compliance on this issue.

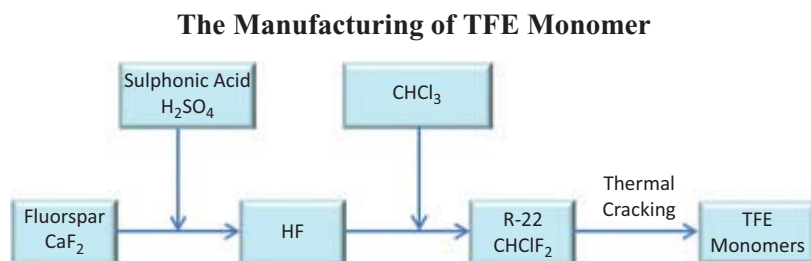
Additionally, further regulations affect the key raw material for the production of specialty fluorochemicals. The "Montreal Protocol on Substances That Deplete the Ozone Layer" came into effect in 1989, and seeks to control production and consumption of substances that cause ozone-depletion, such as hydrofluorochlorocarbons (HCFCs), hydrofluorocarbons (HFCs) and chlorofluorocarbons (CFCs). The Kyoto Protocol, which seeks to reduce emissions of greenhouse gases also limits the utilization of CFCs, HCFCs and HFCs, and came into effect in 2005. However, the protocols do not prohibit the production of such products if they are produced only as an intermediate, for use in a downstream process.

In their end-product forms, HCFCs are principally utilized as a refrigerants (for example, HCFC-22/R-22), especially in China. Since the protocols limit their unprocessed use, the resulting oversupply of R-22 is beneficial to the specialty fluorochemicals producers that use it as their key raw material.

The specialty fluorochemicals production process

Specialty fluorochemicals are manufactured by firstly producing TFE monomer, which is then telomerized.

To manufacture TFE monomer, HF is firstly produced by heating fluorspar powder mixed with anhydrous sulphonic acid. Then, HF and Chlorine (CHCl_3) are combined to produce R-22 (also known as HCFC-22), which is then thermally cracked to generate TFE monomer.

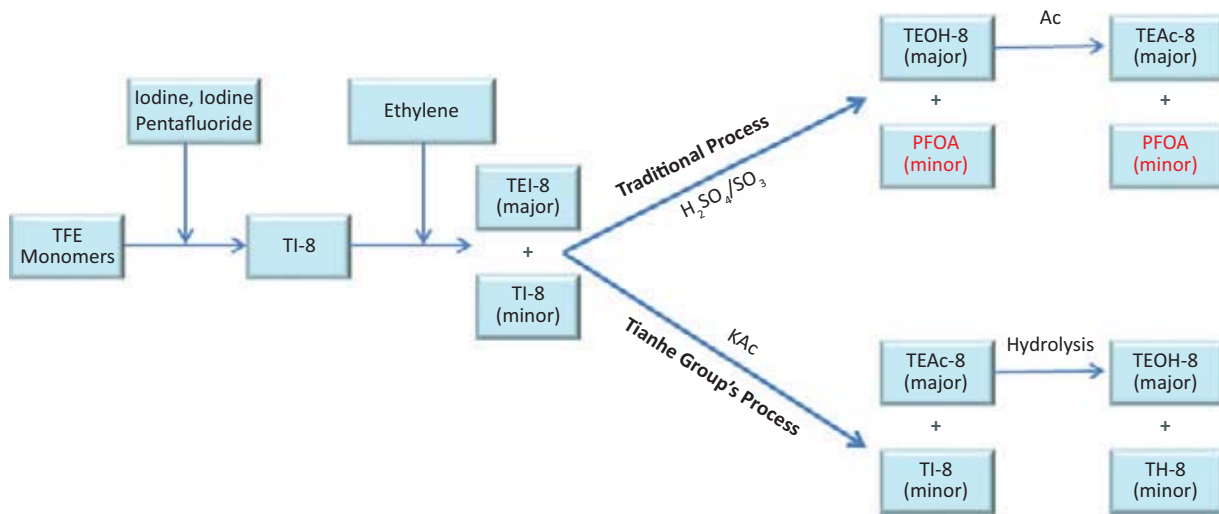


Source: Frost & Sullivan

TFE monomer is then telomerized into specialty fluorochemical products. Firstly, iodine, iodine pentafluoride, and TFE monomers react and generate TI, principally in eight carbon (C-8) long chains (TI-8). This is then reacted with ethylene to produce TEI-8. In a traditional telomerization process, TEOH-8 is produced directly from TEI-8 by reacting it with oleum (a solution of SO_3 in H_2SO_4). In this step, any telomer iodide impurity will be converted by the oleum to PFOA/PFOS, the production of both being banned in many countries. Since PFOA and PFOS cannot be completely removed from the final product by distillation, at best traces of PFOA and PFOS would remain in the final product. At present, commercial production using this method is utilized by major international specialty fluorochemicals companies, as well as certain Chinese producers.

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Manufacturing Specialty Fluorochemicals from TFE: The Traditional Process vs. Tianhe Group's Process



Source: Frost & Sullivan

Tianhe Group's process, however, does not use oleum, but instead converts TEI-8 directly to TEAc-8, which is then hydrolyzed to produce TEOH-8. Therefore, no PFOA or PFOS can be formed by this route since the sulphonation step, which is the key source of PFOA/PFOS, is eliminated. Due to Tianhe's technology uniqueness, it does not have to concern itself with one of the major routes for the formation of PFOA/PFOS and its subsequent escape into the environment.

The telomerization process inherently makes C-8 chains. However, with some customers preferring to avoid specialty fluorochemicals containing C-8 chains altogether due to some concerns on the potential for such products to degrade naturally into PFOA, products based on 6 carbon chains (C-6) can be produced, because they do not have the required C-8 chain and cannot degrade to PFOA or PFOS.

As a result, Tianhe Group is capable of producing both C-8 chain products in a process that does not generate any PFOA/PFOS by-products, as well as highly effective specialty fluorochemicals based on C-6 chains.

Globally, the major specialty fluorochemicals producers that participate in the Stewardship Program in the process of phasing out the production of any C-8 based specialty chemicals, or are adapting their production processes at significant expense. Moreover, they are also investing in the product and process R&D to develop and manufacture effective C-6 chain products. This creates opportunities for producers such as the Group whose process is PFOA- and PFOS-free to take advantage of decreasing the supply of C-8 chain products.

In addition, Tianhe Group's process to convert TI to TEI is more efficient, converting almost all TI to TEI, leaving only traces of TI impurities in subsequent products. By comparison, producers utilizing the traditional process have up to a few percent of TI impurities left after the production of TEI.

According to Frost & Sullivan, Tianhe Group is also the only specialty fluorochemicals producer globally that uses telomerization under moderate temperature and pressure, which is

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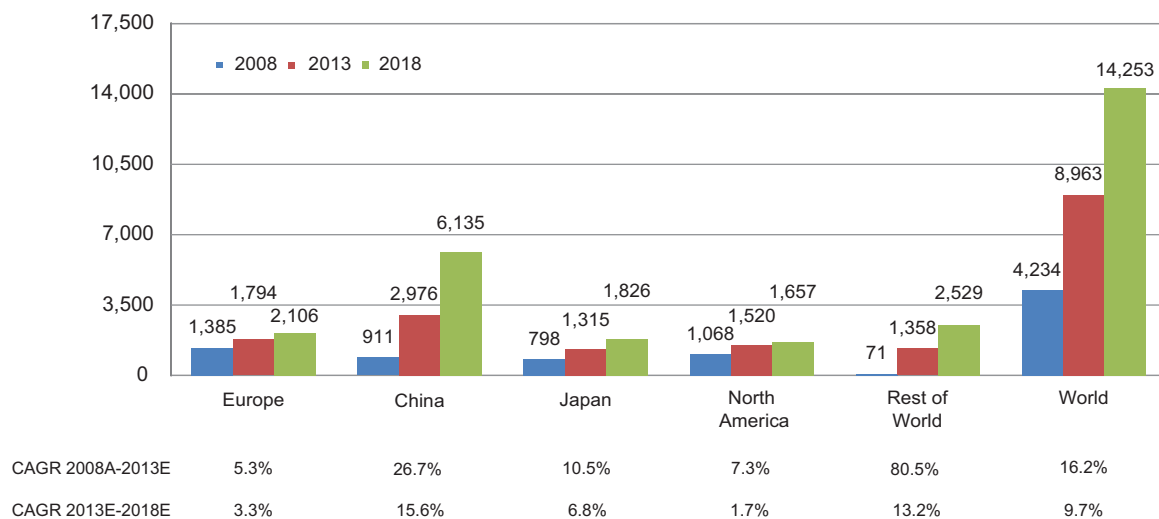
significantly safer and requires less capital investment and lower operating costs, as well as resulting in higher yields and purity.

Global market for specialty fluorochemicals

The global specialty fluorochemicals market was valued at approximately US\$9.0 billion in 2013 by Frost & Sullivan. The four largest geographical markets are the PRC (comprising approximately US\$3.0 billion), Europe (comprising approximately US\$1.8 billion), Japan (comprising approximately US\$1.3 billion) and North America (US\$1.5 billion). Frost & Sullivan estimates that the global market will grow at 9.7% per annum between 2013 and 2018, reaching US\$14.3 billion in 2018.

Frost & Sullivan estimates that the specialty fluorochemicals markets in Europe, Japan and North America will experience stable growth in the short- to medium-term, with an expected CAGR of 3.3%, 6.8% and 1.7% from 2013 to 2018, respectively. In contrast, China will drive growth in the global specialty fluorochemicals industry with an expected CAGR of 15.6% from 2013 to 2018, given its rising income levels and advancing manufacturing technology for end-applications. Moreover, Frost & Sullivan expects that the manufacturing center for specialty fluorochemicals will shift to the emerging countries, such as the PRC, India and Brazil, in the future given the lower manufacturing costs and improving labor qualifications. This will further increase the penetration rate of the application of specialty fluorochemical products in emerging countries.

World Specialty Fluorochemicals Market Size (US\$ million)
(%)



Source: Frost & Sullivan

Another key driver for the growth of specialty fluorochemicals consumption globally is the desirable characteristics of the fluorine atom, other emerging applications of specialty fluorochemicals, such as applications in eye repair fluid in medical field and fire-fighting foams. The manufacturing technology has been improving continuously, in particular related to environment protection and manufacturing efficiency. Fluorochemical producers across the world have taken steps to introduce new environment-friendly fluorochemicals to replace traditional products that may have been restricted by legislation in many countries.

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On the supply side, the European, North American and Japanese markets are characterized by a high degree of concentration. The largest global producers of specialty fluorochemicals (excluding intermediates) are DuPont, Solvay, Asahi Glass, Daikin and 3M. These are active in many sub-product groups offering a wide range of products. However, their production facilities are located mainly in US, Europe and Japan.

Market Capabilities by Region of Leading Producers of Specialty Fluorochemicals, 2013

	Fluorinated Latex Paint Additives		Anti-Mar / Anti Reflective Coatings		Fluorosurfactants		Fluorochemicals for Solvents and Polymer Foam Blowing Agents		Fluorochemical Intermediates for Pharmaceuticals and Crop Protection	
	Production	Sales	Production	Sales	Production	Sales	Production	Sales	Production	Sales
DuPont										
US	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
China		✓		✓		✓	✓ ^a	✓		
Japan		✓		✓		✓	✓	✓		✓
Europe		✓		✓		✓	✓	✓		✓
Solvay										
US		✓		✓		✓		✓		✓
China		✓		✓		✓		✓		✓
Japan		✓		✓		✓		✓		✓
Europe	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Asahi Glass										
US		✓		✓				✓		
China		✓		✓				✓		
Japan	✓	✓	✓	✓			✓	✓		
Europe		✓		✓				✓		
Daikin										
US		✓		✓				✓		
China		✓		✓				✓		
Japan	✓	✓	✓	✓			✓	✓		
Europe		✓		✓				✓		
3M/Dyneon										
US	✓	✓	✓	✓	✓	✓	✓	✓		
China		✓		✓		✓		✓		
Japan		✓		✓		✓		✓		
Europe		✓		✓		✓		✓		✓

a. Includes joint venture operations

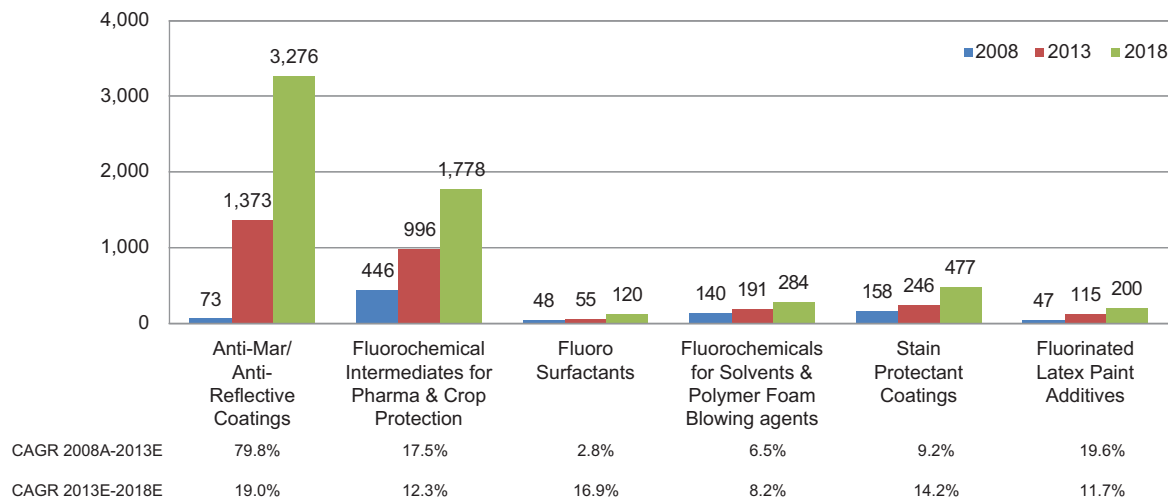
Source: Frost & Sullivan

The PRC market for specialty fluorochemicals

Frost & Sullivan estimates that the value of the PRC specialty fluorochemicals market in 2013 was US\$3.0 billion, accounting for approximately 33% of the total global market for specialty fluorochemicals. By 2018, it is expected that the PRC share of the global market for specialty fluorochemicals will have increased to approximately 43% (or US\$6.1 billion) on the back of 15.6% growth per annum between 2013 and 2018 in the PRC specialty fluorochemicals market.

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**China Specialty Fluorochemicals Market Size by Revenue (US\$ million)
and Market Growth (%)**



Source: Frost & Sullivan

Anti-mar/anti-reflective coatings is the largest segment in terms of consumption of specialty fluorochemicals in the PRC, accounting for 46.1% of total consumption value. This is also the fastest growing segment driven by strong growth in the eyewear and electronics sector in the PRC, in particular the touch-screen devices production industry. Fluorochemical intermediates for pharmaceuticals and crop protection is an emerging application for fluorochemicals in the PRC, accounting for approximately 33.5% of total consumption value. Stain protectant coatings, that accounts for 8.3% of the PRC's total fluorochemical consumption, is also expected to see significant demand growth in the future driven by the PRC's textile industry. The key trend in fluorochemicals for solvents and polymer foam blowing agents is the transition from HCFC-22 and 1,1-dichloro-1-fluoroethane (HCFC-141b) to other HFC fluorocarbons that do not cause ozone depletion; this will drive the increase in value for the segment. Demand for fluorinated latex paint additives in the PRC is expected to be driven by their application in architectural paints, particularly outdoor construction.

In the PRC, the product portfolio is shifting from low-end products to a wide range of higher-end products both within the fluorochemicals industry and the end-user industries. Environmentally harmful products are being replaced with materials that are safe for the environment.

The PRC government has shown significant support for the specialty fluorochemicals industry by designating it as a High Technology industry and granting tax concessions to participants in the industry and other subsidies. The industry has also been recognized as a key focus area in the PRC 12th Five Year Plan as well as in the Revitalization Plan for Ten Key Industries.

Despite significant capacity expansion in the specialty fluorochemicals industry in PRC, the country relies heavily on imports. A significant portion of the imports are high-end products such as anti-mar/anti-reflective coatings. This provides an opportunity for domestic producers that have the critical technology to leverage their access to raw materials and proximity to the key markets and so displace the imports. Daikin, DuPont, Asahi Glass and Solvay are major competitors who export to the PRC specialty fluorochemicals market.

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China Specialty Fluorochemicals Market Reliance on Imports (2013)

<u>Product Category</u>	<u>Consumption Share By Value</u>	<u>Reliance On Imports</u>
Anti-Mar/Anti-Reflective Coatings	46%	High
Fluorochemicals Intermediates for Pharmaceutical & Crop Protection	34%	Low
Stain Protectant Coatings	8%	High
Fluorochemicals for Solvents & Polymer Foam Blowing Agents	6%	Low
Fluorinated Latex Paint Additives	4%	High
Fluorosurfactants	2%	Low
Total	100%	

Source: Frost & Sullivan

Tianhe Group is capable of producing a high-end market portfolio, and thus competes with international producers in the high-end PRC and international specialty fluorochemicals market. On the contrary, large volumes of lower-end specialty fluorochemicals are produced in PRC for exports.

The PRC specialty fluorochemicals market is highly fragmented with many small and middle-size participants, and many producers focus on one sub-product within the larger specialty fluorochemical market. Tianhe Group was the largest specialty fluorochemicals producer headquartered in the PRC in 2013, and is the only participant in the PRC market with a wide product portfolio covering all the key segments. We compete globally and in China with DuPont, Solvay, Daikin and Asahi Glass. In addition, Tianhe Group also competes with certain Chinese companies in certain product lines.

Specialty Fluorochemical Producers in China in terms of sales revenue (2013)

<u>China's Major Domestic Specialty Fluorochemicals Producers</u>	<u>Specialty Fluorochemicals Sales Revenue in 2013 (RMB Billion)</u>
1 Tianhe Group	2.9
2 Changshu 3F Zhonghao	0.8
3 Yongtai Technology	0.6
4 Chemspec	0.6
5 Weihua Chemical	0.5

Source: Frost & Sullivan

Key barriers to entry into the specialty fluorochemicals industry

Key barriers to entry into the specialty fluorochemicals industry.

- **R&D capability to develop new products:** Specialty fluorochemicals producers need the capability to continuously develop new products to suit their customers' own product development, since specialty fluorochemical product is often a key determinant of the ultimate performance of customers' own products. This includes improving the technical performance of existing products, or through the development of entirely novel products that have specific capabilities that did not previously exist in the market place.
- **Production technology and know-how:** The production of specialty fluorochemicals requires the mastery of some highly complex chemistry. In particular, only a few

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companies globally have the actual underlying telomerization technology necessary for production. Furthermore, as customers require high product quality and consistency, and they need to abide by strict health, safety and environmental regulations, the know-how to effectively and efficiently operate and optimize these highly complex production processes is paramount.

- **Qualified and experienced staff:** Given the highly technical nature of specialty fluorochemicals, there are only relatively few qualified professionals with the experience and skills required to develop, manufacture and commercialize the products needed by customers. Recruiting these and providing them with the appropriate environment to be productive is critical. Moreover, given the continuous developments in the regulations of the specialty fluorochemicals industry, it is imperative for producers to have the necessary Technical knowledge and operational flexibility to adapt to the regulatory changes, and to capture the opportunities that arise.
- **Relationships with customers, reinforced by strong technical services and customer support:** Specialty fluorochemicals often are the key technical component that enables end-customers' products to achieve the performance for which they charge premium pricing. Given the reputational risk that therefore exists for end-customers, they have a rigorous testing process and need to develop a partnership based on trust and consistent performance with their specialty fluorochemicals suppliers. Moreover, specialty fluorochemicals manufacturers must provide technical support services to their customers to ensure that not only does the specialty fluorochemicals perform exactly as required, but also for the producers to develop further understanding of their customers' needs so as to develop bespoke solutions for them.
- **Access to key raw materials:** Specialty fluorochemicals production requires TFE monomer, which itself is made from R-22, and ultimately from Fluorspar. With only relatively few sources of this mineral available globally, securing raw materials access is critical. US and European specialty fluorochemicals producers have sought to backwards integrate fully into Fluorspar mining. However, in China, given the abundant availability of Fluorspar, and its significantly higher purity, and its large refrigerants production base, the strategy has been different. China specialty fluorochemicals producers can utilize the R-22 that use to be made into refrigerants as its starting point. Furthermore, with the PRC governmental policies restricting the export of Fluorspar, China specialty fluorochemicals producers have preferential access to these raw materials than international competitors.
- **Critical scale and product range to satisfy customers' needs:** To become a truly strategic supplier to customers, specialty fluorochemicals producers need to have sufficient production scale to meet customers' demand. Moreover, product range needs also to be broad, and of consistently high quality and purity, to supply customers with the full range of specialty fluorochemical products that they may require.
- **Track record of production and sales in the PRC:** Having production in China combines the advantage of being near fluorspar and fluorine raw materials as well as having access to a highly trained workforce and being in the region with the highest consumption growth. Most of the largest fluorochemical producers, both commodity and specialty have located parts of their manufacturing to China, particularly their newest plants.

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Prices for specialty fluorochemicals

Prices for specialty fluorochemicals vary significantly from one product to another. Anti-mar/anti-reflective coatings were priced the highest among the six specialty fluorochemical segments. In 2013, the average price of anti-mar/anti-reflective coatings (containing 20% active ingredient concentration) was US\$7,750 per kilogram. The price for anti-mar/anti-reflective coatings has also steadily increased in the last five years due to the huge demand for touch screens in the PRC. Fluorosurfactants were the second most expensive products at US\$110 per kilogram. Compared with these segments, agents fluorochemicals used in the other segments were lower-priced (in 2013, fluorochemical stain protectants were priced at US\$16 per kilogram, fluorinated latex paint additives at US\$12 per kilogram, and fluorochemicals for solvents and plastic foam blowing at US\$2 per kilogram).

<u>USD/kg</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2018E</u>	<u>08/13 CAGR</u>	<u>13/18 CAGR</u>
Anti-Mar/Anti-Reflective Coatings	6,760	6,780	6,990	7,240	7,500	7,750	7,750	2.8%	0.0%
Fluorosurfactants	164	164	160	160	120	110	160	-7.7%	7.8%
Fluorochemicals for solvents and plastic foam blowing	2	2	2	3	2	2	4	-0.9%	17.3%
Fluorochemical Stain Protectants	14	14	14	15	15	16	21	2.7%	5.6%
Fluorinated Latex Paint Additives	10	9	10	13	15	12	16	3.7%	5.9%

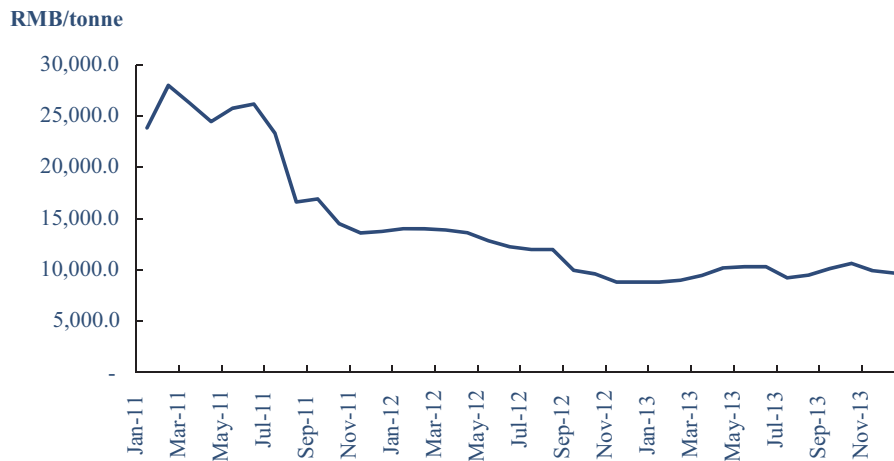
Raw materials

Fluorspar is the key raw material for specialty fluorochemical products with global reserve base of approximately 241.0 million tonnes in 2013. The PRC has the world's third largest fluorspar reserves, accounting for approximately 10.0% of the world's total reserve base. At the end of 2013, total fluorspar reserve in the PRC was approximately 24.0 million tonnes, behind South Africa and Mexico (each with a reserve base of 41.0 million tonnes and 32.0 million tonnes respectively), comparing with which, however, the PRC has higher-grade fluorspar ore according to British Geological Survey (BGS). In addition, according to Frost & Sullivan, the PRC is the largest fluorspar producing country in the world, consistently accounting for over 50% of global fluorspar production since 2008. In 2012, production volume of fluorspar in the PRC amounted to 4.4 million metric tonnes, accounting for approximately 62.2% of global fluorspar production. Thus, according to Frost & Sullivan, Chinese fluorspar producers enjoy cost advantages supported by the stable and abundant supply of high-grade fluorspar in the PRC, which is in turn beneficial to the scalable Chinese fluorochemical producers.

R-22 and iodine are among the major raw materials used in the production of specialty fluorochemical products.

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Domestic Price of R-22 (China), 2011-2013

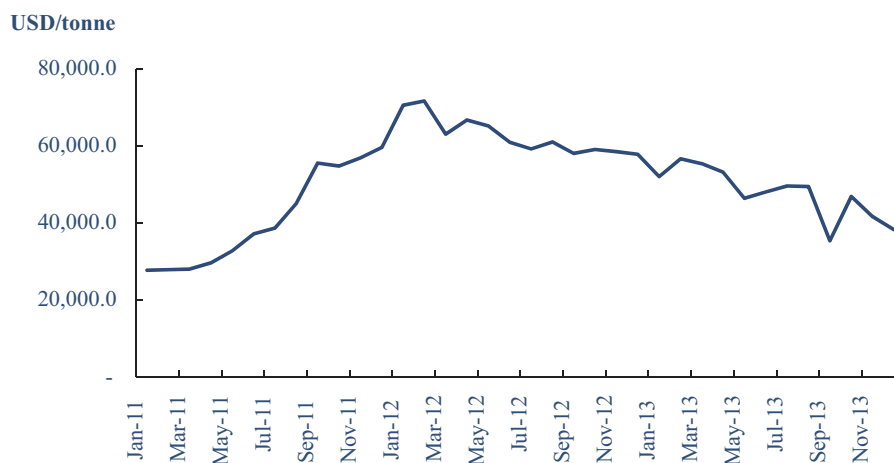


Source: Frost & Sullivan

As a result of increasing production of anhydrous hydrofluoric acid (a precursor of R-22) and declining use of R-22 in air conditioners, the price of R-22 in the PRC declined from the peak value of RMB28,000 per tonne in February 2011 to RMB8,800 per tonne by the end of 2012. The price has been fluctuating around this point ever since.

The PRC has a constantly increasing demand for iodine but is not a major producer and hence relies on imports to satisfy the domestic demand. Accordingly, the import price for iodine is a critical reference point.

Import Price of Iodine, 2011-2013



Source: Frost & Sullivan

Overall, the price of iodine increased throughout 2011 from USD27,718 per tonne in January to USD59,688 per tonne in December. This increase continued in early 2012 and pricing levels peaked at USD71,773 per tonne in February 2012. Since then, the import price of iodine has been steadily declining with some fluctuations to USD38,276 per tonne at the end of 2013.

ABOUT THIS SECTION

This “Industry Overview” section contains information extracted from a report commissioned by our Company, or the Frost & Sullivan Report, prepared by Frost & Sullivan for purposes of this

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prospectus. We expect to pay a total of RMB4.65 million to Frost & Sullivan for the preparation and use of the Frost & Sullivan Report, of which RMB4.56 million has already been paid and the remaining RMB90,000 is payable prior to the Listing.

Research Methodology

Frost & Sullivan has refined its research methodology over years of experience, having researched diverse markets in different life cycles, from the embryonic to mature. Frost & Sullivan's market engineering system focuses on "T.E.A.M.": Technical, Econometric, Applications and Market. Frost & Sullivan collects market information through bottom-up and top-down method and use different information sources to cross check with each other to increase reliability of market data. Frost & Sullivan uses desk research, primary interview to different stake holders and their internal database as major data source of its industry report.

Market Engineering Forecasting Methodology

This methodology integrates several forecasting techniques with the market engineering measurement-based system. It relies on the expertise of the analyst team in integrating the critical market elements investigated during the research phase of the project. These elements include (i) expert-opinion forecasting methodology, (ii) integration of market drivers and restraints, (iii) integration with the market challenges, (iv) integration of the market engineering measurement trends, and (v) integration of econometric variables.

Based on its forecasting methodology, Frost & Sullivan forecasted the specialty chemicals industry and various segment markets, including lubricant additives market and specialty fluorochemicals market, from 2013 to 2018 based on the following five steps:

- (i) Conduct analysis of the lubricant additives market and specialty fluorochemicals market, as well as various segment markets with respect to production and sales;
- (ii) Conduct interviews and analysis of downstream industries with respect to technology, customers' affordability and future trends;
- (iii) Conduct interviews and analysis of government regulations and industry policies;
- (iv) Forecast the demand of downstream industries in key applications according to the interviews and database of Frost & Sullivan; and
- (v) Combine step (i), step (ii), step (iii) and step (iv), and work out market forecast for the lubricant additives market and specialty fluorochemicals market, as well as various segment markets.

Frost & Sullivan made the following major assumptions about the global and China's economy in the preparation of the Frost & Sullivan Report:

- The global economy is likely to gradually recover from 2013 to 2018. The macroeconomic environment in China remains stable from 2013 to 2018;
- Disposable income per capita continues to grow from 2013 to 2018; and
- China's social, economic and political environment is likely to remain stable from 2013 to 2018, which ensures the stable and healthy development of the PRC lubricant additives market and specialty fluorochemicals market.

INDUSTRY OVERVIEW

The lubricant additives market is a consolidated space both globally and in China. The underlying assumptions for the market growth are very closely linked to the overall assumptions described above and specifically the following drivers:

1. Growing demand for lubricant additives based on automotive and other end market growth rates globally and in China
2. Increasing share of imports in China being replaced by domestic production
3. Enhanced overall standards requiring higher performing lubricant additives and increasing the share of lubricant additives per liter of lubricant, especially in emerging economies like China

The forecast methodology for future consumption reflects trends and events that are specific to the particular specialty fluorochemical product in its application. Growth in the consumption of a particular specialty fluorochemical product is dependent on the growth in the use of a technology, the growth in the production of an end product that incorporates the specialty fluorochemical product or is the result of a government regulation that causes more or less of the specialty fluorochemical product to be used.

The trends and key assumptions used for each of the specialty fluorochemical products are as follows:

Fluorochemical Stain Protectants and Paint Additives:

1. Positive: Global — fluorochemical stain protectants offer superior efficacy causing growth in use to be faster than competing products
2. Positive: Global growth in housing & construction increasing the consumption of carpeting
3. Positive: Global growth in the use of technical clothing & sportswear
4. Suppressed growth: Within Europe there is consumer concern about the use of fluorochemicals on clothing; this has the impact of suppressing growth in the Europe market

Anti-mar/Anti-reflective Coatings:

1. Positive: Global — Very significant growth in the production of touch screens in electronic devices (anti-mar/anti-reflective coatings)
2. Positive: US market — Growth in health care spending particularly in the following the implementation of the U.S. Affordable Health Care Act (eyeglass anti-reflective coatings)
3. Positive: Developing regions — General growth in affluence within developing economies particularly the growth of China's middle class (eyeglass anti-mar/anti-reflective coatings)

Fluorosurfactants:

1. Positive: Global — General growth in manufacturing, particularly automobiles as well as growth in construction (stimulating paint & coatings consumption)
2. Positive: China market — growth in enhanced oil recovery methods
3. Positive: China market — Need to replace use of PFOA firefighting foams (regulatory impact restricting PFOA production & use)

INDUSTRY OVERVIEW

Fluorochemicals for solvents and polymer foam blowing agents:

1. Positive: Developed economies — growth in electronics manufacturing, need to replace vapor degreasing solvents that are restricted or phased out by regulations
2. Suppressed growth: Developed countries — Replacement fluorochemicals are significantly more expensive than the solvents they replace, suppressing growth in use

Fluorochemicals for pharmaceuticals and pesticides

1. Positive: New pharmaceuticals and pesticides may incorporate fluorochemical raw materials, recent trend are been positive with more fluorochemical raw materials being used

Sources of Information

The information, including certain forward looking information derived or sourced from the database of Frost & Sullivan and contained herein has been obtained from sources believed by Frost & Sullivan to be reliable, but there can be no assurance as to the accuracy or completeness of such information.

Other sources were generated from analysis of data prepared by various PRC government authorities and industry associations, such as General Administration of Customs, and different global industry associations, such as IMF, OICA.

About Frost & Sullivan

Frost & Sullivan is an independent global consulting firm founded in 1961 and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes agriculture, forestry, husbandry and fishery, automotive and transportation, chemicals, materials and food, commercial aviation, consumer goods, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, minerals and metals, and technology, media and telecom.

Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date on which we obtained the data from Frost & Sullivan which may qualify, contradict or have an impact on the information in the section.

REGULATORY OVERVIEW

Our business operations are subject to extensive supervision and regulation by the PRC government. This section summarizes the main laws, rules and regulations which impact key aspects of our business.

LEGAL SUPERVISION OVER THE CHEMISTRY INDUSTRY IN CHINA

Regulations on the Safe Management of Hazardous Chemical Materials

The Regulations on the Safe Management of Hazardous Chemical Materials (危險化學品安全管理條例) (the “**Hazardous Chemical Regulations**”) were promulgated by the State Council on January 26, 2002 and revised on February 16, 2011 and December 7, 2013. The Hazardous Chemical Regulations stipulate administrative and supervisory rules for the safe production, storage, use, operation and transportation of hazardous chemicals. Hazardous chemicals include hyper-toxic and other hazardous chemicals that are toxic, corrosive, explosive, flammable or accelerative, and which damage human health, facilities or the environment. The PRC government exerts strict control over and adopts an examination and approval system of the manufacture and storage of hazardous chemicals. Without proper examination and approval, no enterprise or individual is allowed to produce or store hazardous chemicals. The rebuilding or expansion of an enterprise that produce hazardous chemicals shall also follow the approval formalities in accordance with Hazardous Chemical Regulations. Enterprises engaging in the production of hazardous chemicals must, prior to the commencement of production, obtain a production permit for hazardous chemicals.

Enterprises that produce and store hazardous chemicals are required to appoint a qualified institution to conduct safety evaluation of their own safety production conditions once every three years and prepare the safety evaluation report accordingly. Such report shall set out the rectification measures and plans for solving problems in the safety production conditions. The corresponding safety evaluation report and the implementation of the rectification measures shall be filed with the safety supervision regulatory authority under the people’s government at the county level for record. A hazardous chemicals production or storage enterprise that fails to perform such periodic safety evaluation obligations will be ordered, by the safety supervision regulatory authority, to rectify such act and may be subject to a fine of no less than RMB50,000 and not exceeding RMB100,000, and the failure to rectify will result in the suspension of production or operation for rectification, and to the extent that the original issuing authority revokes its license or permit, the relevant administrative authority for industry and commerce may order it to change its registered scope of business or revoke its business license.

The safety conditions of newly built, reconstructed and expanded construction projects for the production and storage of hazardous chemicals is subject to the examination of the safety supervision regulatory authority. In the event that the enterprise undertaking such construction project fails to do so, the relevant safety supervision regulatory authority shall order the concerned party to discontinue the construction process and make corrections within a specified time limit. Failure to make corrections within the specified time limit may result in a fine of no less than RMB 500,000 but not exceeding RMB 1 million. If the said act constitutes a crime, the concerned party shall be subject to criminal liability.

Hazardous chemicals production enterprises are prohibited from selling extremely toxic chemicals or hazardous chemicals for explosive manufacturing to enterprises without requisite permits or certifications. The hazardous chemicals production enterprise, in violation of these rules, shall be ordered to make corrections by the safety supervision regulatory authority; the illegal income, if any,

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shall be confiscated; the violator shall be concurrently fined no less than RMB100,000 but not exceeding RMB200,000; if the violator fails to make corrections, the competent regulatory authorities may suspend the production or operation of such enterprise until such corrections are made and may even revoke the production permit for hazardous chemicals, and the relevant administrative authority for industry and commerce may order it to change its registered scope of business or revoke the business license of such enterprise.

Administrative Measures for the Registration of Hazardous Chemicals

The Administrative Measures for the Registration of Hazardous Chemicals (危險化學品登記管理辦法), which were promulgated by the SAWS on July 1, 2012 and came into effect on August 1, 2012, stipulate that enterprises engaged in the production or importation of any chemical listed in the Catalogue of Hazardous Chemicals (危險化學品目錄) must register with the competent work safety administration authorities. Registration must be completed prior to the commencement of production or importation activities. Hazardous Chemicals Registration Certificates (危險化學品登記證) is valid for three years and may be renewed within three months prior to expiration upon re-examination. The hazardous chemicals registration certificates (such as Registration Certificate of Hazardous Chemicals Producers) obtained and held by a registrant prior to the promulgation of the Administrative Measures for the Registration of Hazardous Chemicals shall remain valid and be subject to re-examination and renewal accordingly. Please also see “Business — Qualifications and Licenses” and “Risk Factors — We may fail to renew our certification or qualification as a supplier of our customers”.

Regulations on PFOS and PFOA-related Products

The Guiding Catalogue on the Adjustment of Industrial Structure (產業結構調整指導目錄 (2011年本) (修正)), which was promulgated by NDRC on February 16, 2013 and came into effect on 1 May 2013, stipulates that fluoropolymer produced with PFOA as processing agent shall be eliminated in accordance with the general national plan on the implementation of international conventions, namely, the Stockholm Convention on Persistent Organic Pollutants (the “**Convention**”) which was passed on May 22, 2001 in Stockholm, executed by the PRC government on May 23, 2001 and approved by SCNPC on June 25, 2004. On August 30, 2013, the SCNPC further approved the Amendments on Nine Additional Persistent Organic Pollutants to the Convention, according to which PFOS (Perfluorooctanesulfonic acid) was added to the restricted list set out in the Convention.

Production Safety Law

The Production Safety Law of the PRC (中華人民共和國安全生產法), which was promulgated by the SCNPC on June 29, 2002 with effect from November 1, 2002 and revised on August 27, 2009, stipulates that enterprises engaged in production activities in China are required to: (i) comply with the Production Safety Law and relevant laws and regulations on production safety, (ii) strengthen managerial control over production safety, (iii) improve safety precautions at production sites, and (iv) establish or improve accountability systems with regard to safety incidents to ensure workplace safety at the production sites. Production enterprises must implement the national standards or industrial specifications for work safety formulated in accordance with law and provide requisite conditions as specified in the applicable standards for safety production. Enterprises that do not satisfy the relevant safety requirements must not engage in production activities.

REGULATORY OVERVIEW

Regulations on Safe Production Licensing

The Regulations on Safe Production Licensing (安全生產許可證條例), which were promulgated by the State Council on January 13, 2004 and revised on July 18, 2013, stipulate that enterprises engaged in the production of hazardous chemicals must obtain a Permit for Safe Production (安全生產許可證) from the competent work safety authorities prior to its commencement of production. The Permit for the Safe Production is valid for three years and may be extended within three months upon its expiration by the original issuing authority. An enterprise shall not transfer its Permit for Safe Production, fraudulently use another enterprise's Permit for Safe Production or use a forged Permit for Safe Production. Where, in violation of this provision, an enterprise transfers its Permit for Safe Production, its illegal income shall be confiscated, it shall be subject to a fine no less than RMB100,000 but not exceeding RMB500,000, and its Permit for Safe Production will be revoked. Please also see “Business — Qualifications and Licenses” and “Risk Factors — We may fail to renew our certification or qualification as a supplier of our customers.”

Administrative Regulations on the Safety Supervision of Construction Projects involving Hazardous Chemical

The Administrative Regulations on the Safety Supervision of Construction Projects involving Hazardous Chemicals (危險化學品建設項目安全監督管理辦法), which were promulgated by the SAWS on January 30, 2012 and came into effect on April 1, 2012, stipulate that projects for the construction, renovation and expansion of facilities used in the production or storage of hazardous chemical materials, as well as projects which generate hazardous chemical materials (including hazardous chemical pipeline construction projects), are subject to safety inspections, supervision and administration by competent regulatory authorities. Such projects must not commence construction or operation without first completing the safety review.

LEGAL SUPERVISION OVER INTELLECTUAL PROPERTY RIGHTS IN CHINA

Trademark Law

The PRC Trademark Law (中華人民共和國商標法), which was revised by the SCNPC on August 30, 2013 with effect from May 1, 2014, stipulates that the TOSAIC is the regulatory authority responsible for the registration and administration of trademarks in China. Upon verification and approval of the TOSAIC, trademarks that may be registered include commodity trademarks, service marks, collective marks, and certification marks. Trademark registrants are entitled to the exclusive use of their trademarks. The validity period of a registered trademark is ten years commencing from the day the registration is approved. If a registrant desires to continue to use the registered trademark after the expiration of the validity period, an application for the renewal of registration shall be made within twelve months before the expiration of such period. If the renewal application is approved, the trademark will be renewed for another ten years. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license contracts should be registered with TOSAIC in accordance with the PRC Trademark Law and relevant regulations. For details of our trademarks, please see the section headed “Business — Intellectual Property Rights.”

Patent Laws

The Patent Law of PRC (中華人民共和國專利法), which was promulgated by the SCNPC on March 12, 1984 and amended on September 4, 1992, August 25, 2000 and December 27, 2008, and the

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Implementation Rules of the Patent Law of PRC (中華人民共和國專利法實施細則), which were issued by the State Council on June 25, 2001 and amended on December 28, 2002 and January 9, 2010 (collectively, the “**Patent Laws**”), provide a legal framework according to which an inventor or a designer may apply to the patent administration department under the State Council for the grant of an invention patent, a utility patent or a design patent. Pursuant to the Patent Laws, the right to apply for a patent (a patent application) and registered patent rights can be transferred upon completion of registration with the competent patent administration department. The patent term for invention patents is 20 years and for utility and design patents is 10 years, in each case commencing from the application date of the patent. Patent holders are obliged to pay annual fees commencing from the year in which the patent right is granted. Failure to pay the annual fees may result in the termination of the patent. For details of our patents, please see the section headed “Business — Intellectual Property Rights.”

LEGAL SUPERVISION OVER PROPERTY IN CHINA

The Land Administration Law of the PRC (中華人民共和國土地管理法), which was promulgated on June 25, 1986 and revised on August 28, 2004 by the SCNPC, and relevant regulations stipulate that urban land in the PRC belongs to the state and land in rural and suburban areas (except as otherwise owned by the state), as well as farm housing land, individual land plots and mountainous land, belongs to relevant farming collectives. State-owned land and land owned by farming collectives may, according to law, be provided for use by organized work units (including enterprises) or individuals. Enterprises or individuals wishing to use State-owned land must apply to and obtain a state Owned Land Use Rights Certificate (國有土地使用證) from the competent land administration. Pursuant to relevant regulations and rules, generally speaking state-owned land use rights are valid for a period of 70 years in respect of land for residential use, and 50 years in respect of land for industrial use or for comprehensive utilization or other purposes.

Pursuant to a series of construction-related laws and regulations, including the Urban and Rural Planning Law (中華人民共和國城鄉規劃法), the Law on the Administration of the Urban Real Estate (中華人民共和國城市房地產管理法), the Construction Law (中華人民共和國建築法), Regulations on the Administration of Construction Project Quality (建設工程質量管理條例) and House Registration Measures (房屋登記辦法), In China, before obtaining the property ownership certificate, the constructor of a construction project is required to obtain various permits, certificates and other approvals, including land use right certificate (國有土地使用證), planning permit for land for construction use (建設用地規劃許可證), planning permit for construction work (建設工程規劃許可證) and permit for commencement of construction works (建築工程施工許可證) in relation to such construction project. After completion of a construction project, the local government authorities would conduct an inspection and issue a certified report on the completed construction of properties and municipal infrastructure (房屋建築工程和市政基礎設施工程竣工驗收備案證明), or completion certificates, if the construction process and property comply with the relevant laws, rules and regulations.

The Property Law of the PRC (中華人民共和國物權法, the “**Property Law**”), which was promulgated by NPC on March 16, 2007 and came into effect on October 1, 2007, defines “property” as including immovable property and moveable property, while “property rights” are defined as the right enjoyed by the holder of the property rights to directly, to the exclusion of others, control possess, use, benefit from and dispose of immovable and movable property according to law. For details of our property, please see the section headed “Business — Properties” and “Risk Factors — We may not be able to obtain or renew our land use rights and building ownership rights for our business and production facilities.” Our temporary buildings and constructions may be demolished if the relevant land use rights expire without successful extension.

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LEGAL SUPERVISION OVER ENVIRONMENTAL PROTECTION IN CHINA

In China, we are subject to various laws and regulations regarding environmental protection, specifically in the aspects of environmental impact assessment and the prevention and control of certain pollutant. For details of our environmental protection, please see the section headed “Business — Environment, Health and Safety” and “Risk Factors — We are required to comply with various environmental, health and safety laws which are extensive and the compliance of which may be onerous or expensive.”

Environmental Protection Law

The Environmental Protection Law (中華人民共和國環境保護法), which was promulgated by the SCNPC on December 26, 1989 and came into effect on the same day, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The Environmental Protection Law requires any facility that produces pollutants or other hazards to adopt environmental protection measures in its operations and establish an environmental protection responsibility system. Any entity that discharges pollution must register with the relevant environmental protection authority. Enterprises that are in violation of Environmental Protection Law may be subject to a warning, payment of damages or imposition of a fine or suspension of production in accordance with the seriousness of the case. Criminal liability may be imposed for a material violation of environmental laws and regulations that causes loss of property, personal injuries or death. The current Environmental Protection Law was amended on April 24, 2014 and will come into effect on January 1, 2015. The new Environmental Protection Law specifically provides a legal framework in relation to the information disclosure and public participation in the environmental protection sector.

Environmental Impact Assessment Law

The Environmental Impact Assessment Law (中華人民共和國環境影響評價法), which was promulgated by the SCNPC on October 28, 2002 and with effect from September 1, 2003, stipulates that enterprises are required to submit environmental impact assessment reports to the competent environmental protection administrative authorities, and that construction work may only be commenced after such an assessment report is approved by the environmental protection administrative authority. The construction of pollution prevention and control facilities in a construction project must be designed, constructed and commenced simultaneously with the main facility.

The Law on Prevention and Control of Air Pollution

The Law on Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法), which was amended by the SCNPC on April 29, 2000 and took effect from September 1, 2000, requires newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere to comply with certain regulations relating to environmental protection. The environmental impact assessment reports of a construction project, which are subject to the approval of the environmental protection administrative authorities, must include an environmental assessment on the air pollution the project is likely to produce and its potential impact on the ecological environment. No construction projects shall be permitted to commence or operate before adequate facilities for the prevention and control of atmospheric pollution have been inspected and accepted by the environmental protection administrative authorities.

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Law on Prevention and Control of Noise Pollution

The Law on Prevention and Control of Noise Pollution (中華人民共和國環境噪聲污染防治法) which was promulgated by the SCNPC on October 29, 1996 and came into effect on March 1, 1997, stipulates that enterprises that may discharge noise during a construction project must prepare an environmental impact assessment report and submit it to the competent environmental protection administrative authorities for approval. The environmental impact assessment report shall include comments and suggestions from entities and residents in places surrounding the location of the construction project. No projects shall be permitted to commence construction or operations prior to the inspection and acceptance of facilities for the prevention and control of noise pollution by the environmental protection administrative authorities.

Law on the Prevention and Control of Water Pollution

The Law on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), which was amended by the SCNPC on February 28, 2008 and with effect from June 1, 2008, stipulates that an environmental impact assessment must be conducted in respect of all projects involving the construction, renovation or expansion of water facilities which discharge pollutants directly or indirectly into water. Facilities for the prevention and control of water pollution must be designed, constructed and put into use or operation simultaneously with the main facility of a construction project. No construction projects shall be permitted to be put into operation or use before its facilities for the prevention and control of water pollution have been inspected and accepted by the environmental protection administrative authorities. Furthermore, enterprises which discharge industrial sewage directly or indirectly into water systems must obtain pollutant discharge permits.

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

The Law on the Prevention and Control of Environmental Pollution Caused by Solid Waste (中華人民共和國固體廢物污染環境防治法), which was promulgated by the SCNPC on December 29, 2004, came into effect on April 1, 2005 and was amended on June 29, 2013, stipulates that construction projects where solid waste will be generated or projects for the storage, utilization or treatment of solid waste shall be subject to environmental impact assessment according to law. Facilities for the prevention and control of solid waste must be designed, constructed and put into use or operation simultaneously with the main facility of a construction project. No construction projects shall be permitted to be put into operation or to use before its facilities for the prevention and control of solid waste have been inspected and accepted by the environmental protection administrative authorities.

LEGAL SUPERVISION OVER FOREIGN INVESTMENT IN CHINA

Wholly Foreign-Owned Enterprise Law of the People's Republic of China and its implementation measures

The Wholly Foreign-Owned Enterprise Law of the People's Republic of China (中華人民共和國外資企業法), which was promulgated by the SCNPC on October 31, 2000 and came into effect on the same day, and the Implementation Measures for the Wholly Foreign-Owned Enterprise Law (中華人民共和國外資企業法實施細則), which were promulgated by the State Council on April 12, 2001 and came into effect on the same day, stipulate that foreign enterprises and other economic organizations or individuals may establish wholly foreign-owned enterprises (“WFOEs”) in China. The application for the establishment of a WFOE is subject to the examination and approval by the competent commercial departments before an Approval Certificate is issued.

REGULATORY OVERVIEW

Interim Provisions on Investment Made by Foreign-Invested Enterprises in China

The Interim Provisions on Investment Made by Foreign-Invested Enterprises in China (關於外商投資企業境內投資的暫行規定), which were jointly promulgated by the Ministry of Commerce (MOFCOM) and State Administration for Industry & Commerce (“SAIC”) on July 25, 2000, stipulate that the provisions of the Interim Provisions Guiding Foreign Investment Direction and the Industry Catalog for Guiding Foreign Investment will govern foreign-invested enterprises’ investment in China. Foreign-invested enterprises are not permitted to invest in any sector prohibited to foreign investment. Where a foreign-invested enterprise makes investment in a restricted sector, the foreign-invested enterprise must file an application with the provincial commercial department of the province where the investee company is located. The relevant company registration authority will, in accordance with the relevant provisions of the Company Law and the Regulations on the Administration of Company Registration of the People’s Republic China (中華人民共和國公司登記管理條例), decide whether or not to approve the registration. If the registration is approved, a Business License of an Enterprise Legal Person will be issued with the designation “Invested by a Foreign-Invested Enterprise” added. The foreign-invested enterprise is required to report the establishment of the investee company within 30 days of the date of its establishment to the original examination and approval authority for record-filing.

The Interim Provisions Guiding Foreign Investment Direction and the Industry Catalog for Guiding Foreign Investment

The Interim Provisions Guiding Foreign Investment Direction (指導外商投資方向規定), which were promulgated by the State Council on February 11, 2002 and came into effect on April 1, 2002, and the current Industry Catalog for Guiding Foreign Investment (外商投資產業指導目錄) (the “**Foreign Investment Catalog (2011)**”) which was jointly promulgated by the NDRC and MOFCOM on December 24, 2011 and came into effect on January 30, 2012, classify all foreign investment projects into four categories: (1) encouraged projects, (2) permitted projects, (3) restricted projects, and (4) prohibited projects. If the industry in which the investment is to occur falls into the encouraged category, foreign investment, in certain cases, may enjoy preferential policies or benefits. If restricted, foreign investment may be conducted in accordance with applicable legal and regulatory restrictions. If prohibited, foreign investment of any kind is not allowed.

LEGAL SUPERVISION OVER LABOR PROTECTION IN CHINA

Labor Law of the People’s Republic of China

The Labor Law (中華人民共和國勞動法), which was promulgated by the SCNPC on July 5, 1994, came into effect on January 1, 1995, and was amended on August 27, 2009, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labor protection equipment that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Workers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer must develop a vocational training system. Vocational training funds must be set aside and used in accordance with national regulations and vocational training for workers must be carried out systematically based on the actual conditions of the company.

REGULATORY OVERVIEW

Labor Contract Law of the People's Republic of China and its Implementation Regulations

The Labor Contract Law (中華人民共和國勞動合同法), which was promulgated by the SCNPC on June 29, 2007, came into effect on January 1, 2008, and was amended on December 28, 2012, and the Implementation Regulations on the Labor Contract Law (勞動合同法實施條例) which were promulgated on September 18, 2008 and came into effect on the same day, regulate employer and employee relations and contain specific provisions on labor contracts. Labor contracts must be made in writing and may, after reaching agreement upon due negotiations, be for a fixed-term, an un-fixed term, or conclude upon the completion of certain work assignments. An employer may legally terminate a labor contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling relevant statutory conditions.

Laws and Regulations on the Supervision over the Social Security and Housing Funds

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in China must provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and must pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance (中華人民共和國社會保險法), which was promulgated on October 28, 2010 and came into effect on July 1, 2011, regulates basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

The Regulations on the Administration of Housing Provident Funds (住房公積金管理條例), which were promulgated and came into effective on April 3, 1999, and were amended on March 24, 2002, stipulate that housing provident fund contributions paid by an individual employee and housing provident fund contributions paid by his or her employer all belong to the individual employee.

LEGAL SUPERVISION OVER TAXATION IN CHINA

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), which was promulgated by the NPC on March 16, 2007 and came into effect on January 1, 2008, and the Implementation Regulations on the EIT Law (企業所得稅法實施條例) (collectively the “**EIT Law**”), which were promulgated by the State Council on December 6, 2007 and came into effect on January 1, 2008, a uniform income tax rate of 25% will be applied to domestic enterprises, foreign-invested enterprises and foreign enterprises that have established production and operation facilities in China. These enterprises are classified as either resident enterprises or non-resident enterprises.

Resident enterprises refer to enterprises that are established in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises refer to enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but who (whether or not through the establishment of institutions in the PRC) derive income from the PRC. However, if non-resident enterprises have not established institutions in the

REGULATORY OVERVIEW

PRC, or if they have established institutions in the PRC but there is no actual relationship between the relevant income derived in the PRC and the institutions set up by them, enterprise income tax is set at the rate of 10%.

The EIT Law supports the development of high and new technology enterprises by providing that a reduced enterprise income tax rate of 15% is applicable to enterprises being recognized as High and New Technology Enterprises (高新技術企業). On April 14, 2008, the Ministry of Science and Technology (MOST), the Ministry of Finance (MOF), and the State Administration of Taxation (SAT) jointly issued the Administrative Measures on the Confirmation of High and New Technology Enterprises (高新技術企業認定管理辦法) and the Scope of High and New Technologies Supported by the State (國家重點支持的高新技術領域). These regulations detail the conditions and procedures for the confirmation of the status of high and new technology enterprises.

Withholding Tax and International Tax Treaties

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Tax Treaty**”), if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns a 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments once approvals have been obtained from the relevant tax authorities. The determination of beneficial ownership is clarified under the Notice on Understanding and Determining Beneficial Owners (國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知) issued by the SAT on October 27, 2009, which expressly excludes from the definition of a beneficial owner any company not engaged in actual operations such as manufacturing, sales or management but that is established for the purpose of avoiding or reducing tax obligations or transferring or accumulating profits.

Pursuant to the Notice on the Several Issues of the Implementation of Tax Treaty (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and came into effect on February 20, 2009, the non-resident taxpayer or the withholding agent is required to obtain and keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment.

Pursuant to the Trial Administrative Measures on Non-residents to Enjoy the Treatment Under Tax Treaties (非居民享受稅收協定待遇管理辦法(試行)的通知), which were promulgated by the SAT on August 24, 2009 and came into effect on October 1, 2009, and the Supplemental Notice on Several Issues of the Trail Administrative Measures on Non-residents to Enjoy the Treatment Under Tax Treaties (關於非居民享受稅收協定待遇管理辦法(試行)有關問題的補充通知), which was promulgated by on June 21, 2010, a non-resident enterprise subject to taxation is required to obtain approval from the relevant tax administration department before it may enjoy a tax reduction or exemption under the dividend provision of a tax treaty.

Business Tax

The Temporary Regulations on Business Tax (營業稅暫行條例), which were promulgated by the State Council on December 13, 1993 with effective from January 1, 1994, and as amended on November 10, 2008 with effect from January 1, 2009, provide that entities and individuals must pay business tax if they are engaged in the provision of services in the transportation, construction, finance

REGULATORY OVERVIEW

and insurance, post and telecommunication, culture and sports, entertainments and service industries as prescribed in Temporary Regulations on Business Tax, or the transfer of intangible assets or the sale of real estate within China.

Value-added Tax

The Temporary Regulations on Value-added Tax (增值稅暫行條例), which were promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and were amended on November 10, 2008, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則), which were promulgated by the MOF and became effective on December 25, 1993, and were amended on December 15, 2008 and October 28, 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing goods into China shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

According the Trial Scheme for the Conversion of Business Tax to Value-added Tax (營業稅改征增值稅試點方案) as promulgated by the MOF and the SAT, the government launched gradual taxation reforms starting from January 1, 2012, whereby value-added tax is collected in lieu of business tax on a trial basis in regions and industries showing strong economic performance, such as transportation and certain modern service industries.

LEGAL SUPERVISION OVER FOREIGN EXCHANGE IN CHINA

The Regulations on the Control of Foreign Exchange (外匯管理條例), which were promulgated by the State Council on January 29, 1996, came into effect on April 1, 1996, and were amended on January 14, 1997 and August 5, 2008, set out that foreign exchange receipts of domestic institutions or individuals may be transferred to China or deposited abroad and that the SAFE shall specify the conditions for the transfer of currency into or out of China and other requirements in accordance with the international receipts, payments status and requirements of foreign exchange control. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaged in the settlement or sale of foreign exchange. Domestic institutions or individuals that make direct investments abroad or are engaged in the distribution or sale of valuable securities or derivative products overseas should register according to SAFE regulations. Such institutions or individuals subject to prior approval or record-filing with other competent authorities shall complete the required approval or record-filing prior to foreign exchange registration. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

The Regulations on the Administration of the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定), which were promulgated by the PBOC on June 20, 1996 and came into effect on July 1, 1996, provide that foreign exchange receipts under the current account of foreign-invested enterprises may be retained to the fullest extent specified by the foreign exchange bureau. Any portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap center.

OUR HISTORY AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Overview

Our Company was incorporated in BVI on March 8, 2007 and is the holding company of our Group. Our Group comprises certain intermediate holding and service companies incorporated in BVI, Hong Kong and Singapore, and operating subsidiaries established in the PRC, namely FHT, Jinzhou DPF-TH, North China Petrochemical, Sino Asia Petrochemical and Tianhe Zhiye.

Our Founder

The history of our Group dates back to 1992 when Mr. Wei Qi, the Chairman of our Company, together with various employees of Yi County Transportation Co., Ltd. (義縣運輸公司), established Yi County Fine Chemicals Factory (義縣精細化工總廠), by using the start-up funds he obtained from selling his house. Prior to establishing the factory, Mr. Wei Qi worked at the Yi County Transportation Bureau (義縣運輸局) and Yi County Transportation Co., Ltd., where he learned from the customers about the demand and profitability of lubricant additives and began his involvement in this industry. By 1998, Yi County Fine Chemicals Factory had built two production facilities in Yi County, Liaoning Province.

In June 1998, based on the foundation of Yi County Fine Chemicals Factory, Mr. Wei Qi and the other shareholders of Yi County Fine Chemicals Factory, together with three other shareholders, established Liaoning Tianhe to engage in the production of fine chemical products. Subsequently, Mr. Wei Qi and Mr. Wei Xuan (brother of Mr. Wei Qi) acquired the remaining interests in Liaoning Tianhe from the other shareholders, and Liaoning Tianhe became wholly owned by the Wei Family.

In around 2004, Mr. Wei Qi was referred a business opportunity to invest in FCA, and decided to expand into the fluorochemical industry. To ensure the supply of the raw materials needed to develop specialty fluorochemical products, in August 2004, Liaoning Tianhe acquired certain assets of Fuxin Fluorine Chemical Co., Ltd. (阜新氟化學有限責任公司), a fluorine chemical producer, through the process of listing in Fuxin Equity Exchange Center (阜新市產權交易中心), from Fuxin State-owned Assets Management Office (阜新市國有資產管理委員會辦公室).

Development of our Group

Our first subsidiary, FHT, was established in August 2004 by Liaoning Tianhe and Jinzhou Hengtong Fluorine Chemical Co., Ltd (“**Jinzhou Hengtong**”) using the assets acquired by Liaoning Tianhe from Fuxin Fluorine Chemical Co., Ltd. The establishment of FHT was a result of cooperation with a Taiwan consultant and a group of US scientists. See “— Cooperation with the Taiwan Consultant and US Scientists Team” below for further details.

Our second subsidiary, Jinzhou DPF-TH, was established as a sino-foreign joint venture in May 2007 by Liaoning Tianhe with a syndicate of financial investors. The joint venture had a registered capital of US\$28.36 million. All the assets and liabilities of Liaoning Tianhe in relation to the lubricant additives were transferred to Jinzhou DPF-TH as the capital contribution by Liaoning Tianhe. As a result, Liaoning Tianhe no longer held any lubricant additives related business. With the funds from the financial investors, Jinzhou DPF-TH established new production lines for specialty fluorochemicals. Our Group subsequently further expanded the production capacity for lubricant additives and specialty fluorochemical products, and established a research & development center. In 2007 and 2008, certain specialty fluorochemical products, such as TEI, were put into production.

OUR HISTORY AND CORPORATE STRUCTURE

Subsequently in 2009, the aforementioned financial investors realized their investment in Jinzhou DPF-TH. For this purpose, the Wei Family formed Driven Goal, an investment holding company, to acquire all of the investors' equity interest in Jinzhou DPF-TH. In order to consolidate and streamline the shareholding structure, in February 2010, Liaoning Tianhe also transferred its interests in Jinzhou DPF-TH to Advanced Grade. Jinzhou DPF-TH then became wholly owned by Advanced Grade.

By 2009, our Group was focusing on the production of lubricant additives and specialty fluorochemical products. In the course of operating its lubricant additives business, our Group came across a new business opportunity primarily involving marine fuel and diesel oil products. As the marine fuel and diesel oil businesses were in the infant stage of development and were not complementary to our lubricant additives and specialty fluorochemicals business of our Group, Jinzhou DPF-TH sold its assets relating to the marine fuel and diesel oil businesses to Jinzhou Heisenberg, a company wholly owned by the Wei Family in late 2011. See “— Spin-off of marine fuel and diesel oil businesses and loan from ICBCI” below for further details.

In 2010, North China Petrochemical and Sino Asia Petrochemical were established to further develop the business of our Group.

During the course of 2011, our Group undertook preparations for a listing in the premium segment of the London Stock Exchange. The listing process reached an advanced stage. However, due to the adverse market conditions in Europe as a result of the Eurozone crisis and concern regarding the possible heightening of the free float requirement for foreign based businesses for admission to the FTSE index, we aborted such plan in early 2012.

From January 2010 to November 2013, Driven Goal and Gain Elite, both being our Controlling Shareholders, received investments for our Company from the Pre-IPO Investors by way of exchangeable loans, convertible preferred shares, exchangeable bonds and warrants.

Throughout this period, our Group continued its rapid growth and expanded the production of various lubricant additives and specialty fluorochemical products. As of December 31, 2013, we were capable of producing over 93 lubricant additives and 160 types of specialty fluorochemical products.

OUR HISTORY AND CORPORATE STRUCTURE

Key Business Milestones

The following table sets forth a summary of the key development milestones of the business of our Group:

<u>Year</u>	<u>Milestone Event</u>
2004	<ul style="list-style-type: none"> ● Established FHT, the first PRC subsidiary of our Group, to develop fluorochemical products
2007	<ul style="list-style-type: none"> ● Established Jinzhou DPF-TH with a syndicate of financial investors for production of lubricant additives and specialty fluorochemicals ● Expanded production capacity of lubricant additives and specialty fluorochemicals to 60,000 tonnes and 200 tonnes respectively
2010	<ul style="list-style-type: none"> ● “Top-Ten Lubricant Additives Enterprises in the PRC” granted by Chinese Market Research Center ● “China Top-Ten Best-Selling Lubricant Additives” granted by China Market Monitoring Center and China Market Research Center ● One of the “Top-Ten Brands” in lubricant additives industry in the PRC granted by China Market Monitoring Center and China Market Research Center ● Established North China Petrochemical and Sino Asia Petrochemical to develop fluorinated lubricants and base oil businesses ● Investec invested an aggregate amount of US\$67 million by way of exchangeable loans to Driven Goal for the development of our businesses
2011	<ul style="list-style-type: none"> ● “Innovative Company” granted by Liaoning Technology Bureau, Liaoning Provincial Finance Department, Liaoning National Taxation Bureau and Liaoning Local Taxation Bureau ● Commenced production of deep processed FCA products, Bawang Village packages project with annual capacity of 10,000 tonnes, Project T115 with annual capacity of 5,000 tonnes, extreme pressure anti-wear additives upgrade project
2012	<ul style="list-style-type: none"> ● Commenced production of fluorosilicone coating product series and HFE series ● Invested in a Group II and III base oil project with an annual capacity of 600,000 tonnes, and a fluorinated lubricant additives project with annual capacity of 200,000 tonnes ● Invested in detergent facility with annual capacity of 30,000 tonnes ● Invested in TI/TEI project with annual capacity of 2,400 tonnes ● MSPEA and Victor Keen subscribed for US\$300 million and US\$30 million respectively of series A convertible preferred shares issued by Driven Goal ● PAG subscribed for US\$35 million of exchangeable bonds issued by Gain Elite
2013	<ul style="list-style-type: none"> ● Our lubricant additives designed production capacity reached 199,000 tonnes and specialty fluorochemicals designed production capacity reached 6,900 tonnes

OUR HISTORY AND CORPORATE STRUCTURE

Development of Our Group

We conduct our businesses primarily through our PRC operating subsidiaries. In particular, our lubricant additives businesses are currently conducted through Jinzhou DPF-TH, North China Petrochemical and Sino Asia Petrochemical, while our specialty fluorochemicals businesses are currently conducted through Jinzhou DPF-TH and FHT. Tianhe Zhiye was established to hold our properties for own uses such as staff quarters. Our Company holds our PRC operating subsidiaries through certain intermediate holding and service companies incorporated in BVI and Hong Kong. Set out below is a brief outline of the corporate development of our Group in chronological order.

Establishment of FHT

FHT was established in the PRC on August 30, 2004. At the time of its incorporation, it was held as to 55% by Jinzhou Hengtong and 45% by Liaoning Tianhe, with a registered capital of RMB80 million. Jinzhou Hengtong was established in January 2004 and was held as to 45% and 55% respectively by Mr. Wei Qi and Ms. Wei Xiao (daughter of Mr. Wei Qi). Jinzhou Hengtong was deregistered in October 2013 as part of the internal restructuring of the Wei Family's business interests.

The establishment of FHT was a result of cooperation among the Wei Family, Mr. Jimmy Chen (the Taiwan consultant) and a group of US scientists (represented by Dr. David Allen Flanigan), and the then interests of Mr. Jimmy Chen and the US scientists in FHT were held on trust by the Wei Family (through their interests in Liaoning Tianhe and Jinzhou Hengtong). See “— Cooperation with the Taiwan consultant and US scientists team” below for further details.

FHT started up with certain assets of Fuxin Fluorine Chemical Co., Ltd, which were acquired by Liaoning Tianhe and injected into FHT, and is primarily engaged in the production of fluorochemicals. FHT is now one of the few companies in the world which can produce FCA products in scale.

Establishment of Jinzhou DPF-TH

Jinzhou DPF-TH was established in May 2007 by Liaoning Tianhe together with a syndicate of financial investors, which were all independent third parties. At the time of its establishment, Liaoning Tianhe held 58% of Jinzhou DPF-TH, while such financial investors held 42% of Jinzhou DPF-TH through our Company (formerly known as Inspeed International Limited and was then wholly owned by such investors) and Advanced Grade, both of which were intermediate holding companies established in 2007. Liaoning Tianhe contributed its lubricant additives assets, while the financial investors contributed cash to Jinzhou DPF-TH for their equity interests. With the funds from the financial investors, Jinzhou DPF-TH established new production lines for specialty fluorochemicals.

Jinzhou DPF-TH primarily focused on the production of lubricant additives and specialty fluorochemicals. It had an initial registered capital of US\$28.36 million. Pursuant to a capital increase agreement entered into between Liaoning Tianhe and Advanced Grade in December 2009, Advanced Grade injected US\$29.09 million into the registered capital of Jinzhou DPF-TH, and the registered capital of Jinzhou DPF-TH was increased to US\$57.45 million. As a result, shareholdings of Liaoning Tianhe and Advanced Grade in Jinzhou DPF-TH became 28.63% and 71.37%, respectively.

OUR HISTORY AND CORPORATE STRUCTURE

Acquisition of FHT by Jinzhou DPF-TH and buy-out of the private equity investors

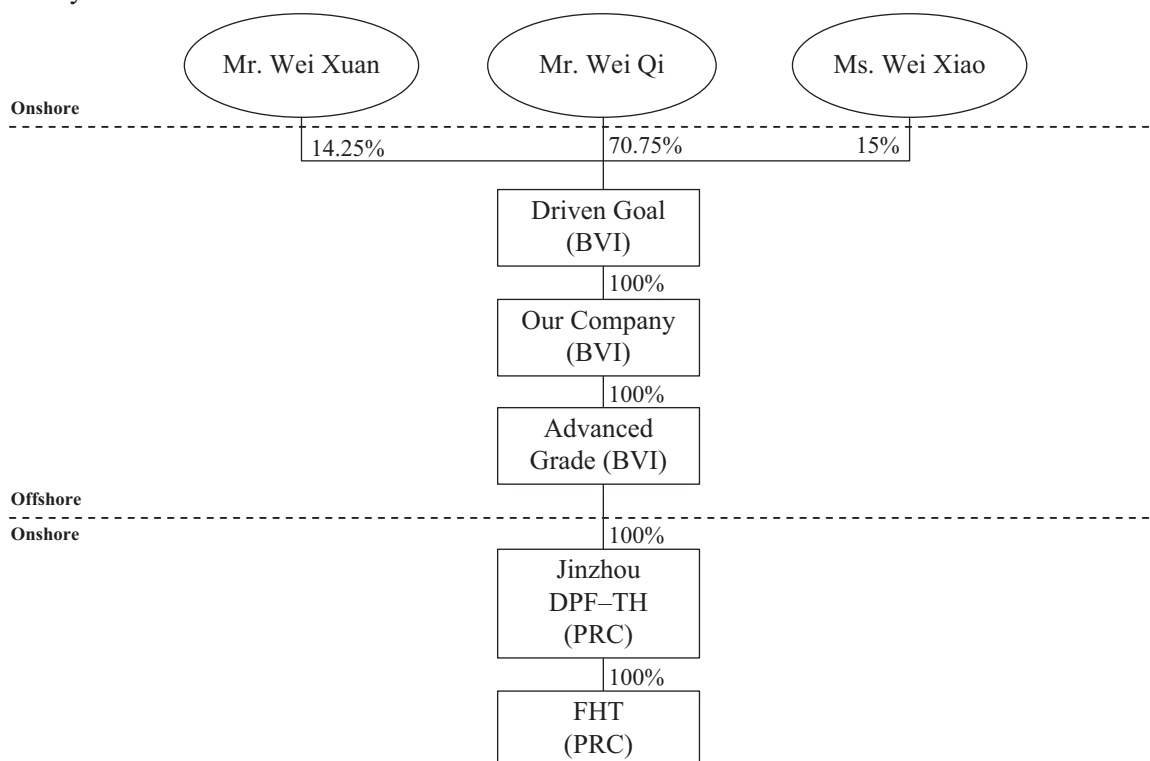
As part of a series of corporate restructuring exercises to consolidate the lubricant additives and specialty fluorochemicals businesses of our Group, Jinzhou Hengtong and Liaoning Tianhe entered into an equity transfer agreement on November 20, 2009 (as supplemented in February 2011) with Jinzhou DPF-TH, pursuant to which Jinzhou Hengtong and Liaoning Tianhe agreed to transfer their respective shareholdings in FHT to Jinzhou DPF-TH for nil consideration. The transfer was completed in December 2009. Following the equity transfer, Jinzhou DPF-TH became the sole shareholder of FHT.

In addition, the Wei Family formed an offshore holding company, Driven Goal, on December 2, 2009, to acquire all of the financial investors' equity interest in our Company, for a consideration of approximately US\$58.32 million. Such consideration was determined based on an agreed internal rate of return for the investors' principal amount of the investment. The transfer completed in February 2010. At the time of its establishment, Driven Goal was owned as to 70.75% by Mr. Wei Qi, 14.25% by Mr. Wei Xuan and 15% by Ms. Wei Xiao. The acquisition was completed in February 2010.

Subsequently in February 2010, Liaoning Tianhe entered into an equity transfer agreement with Advanced Grade to transfer its remaining 28.63% equity interest in Jinzhou DPF-TH to Advanced Grade. The consideration for the transfer was approximately RMB186 million and was determined by reference to the then net asset value of Jinzhou DPF-TH.

Jinzhou DPF-TH subsequently increased its registered capital by US\$50 million in July 2010, and as of the Latest Practicable Date, its registered capital was US\$107.45 million.

Further to the aforementioned equity transfers and restructuring, our Company became wholly owned by the Wei Family through Driven Goal, and the shareholding structure of our Group as of February 2010 was as follows:



OUR HISTORY AND CORPORATE STRUCTURE

Establishment of North China Petrochemical and Sino Asia Petrochemical

In April 2010, our Group formed two wholly-owned subsidiaries, North China Petrochemical and Sino Asia Petrochemical. At the time of their incorporation, both North China Petrochemical and Sino Asia Petrochemical were wholly owned by Advanced Grade. North China Petrochemical had a registered capital of US\$60 million and Sino Asia Petrochemical had a registered capital of US\$50 million. North China Petrochemical is focused on the production of fluorinated lubricants and Group II & III base oil, while Sino Asia Petrochemical is focused on the production of lubricant additives.

Establishment of investment holding vehicles by our Controlling Shareholders and application for listing on the London Stock Exchange

In December 2010, the Wei Family transferred their respective shareholdings in Driven Goal to their personal investment holding vehicles, namely Gain Elite, Crown Indigo and MegaSky respectively. The transfers were effected to restructure their interests in our Group in contemplation of a plan to have the businesses of our Group listed. Following the transfer, Gain Elite, Crown Indigo and MegaSky held 70.75%, 15% and 14.25% of the issued share capital in Driven Goal respectively.

During the course of 2011, our Group undertook preparations for a listing in the premium segment of the London Stock Exchange. The listing process reached an advanced stage with several drafts of the prospectus having been reviewed by the UK Financial Services Authority. However, due to the adverse market conditions in Europe as a result of the Eurozone crisis and concern regarding the possible heightening of the free float requirement for foreign based businesses for admission to the FTSE index, we aborted such plan in early 2012. Up until the time the listing plan was put on hold, the UK Financial Services Authority was in the process of vetting our application, and it had not raised any material issues which were not capable of satisfactory resolution or that should be drawn to the attention of the Hong Kong Stock Exchange.

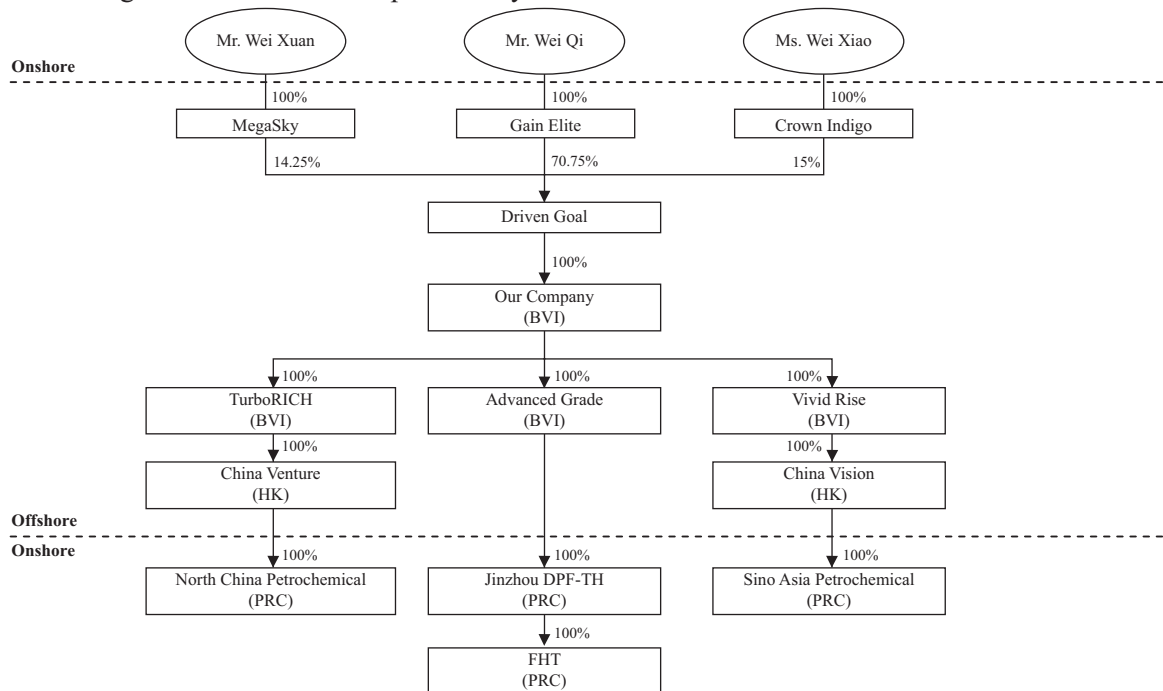
Restructuring of North China Petrochemical and Sino Asia Petrochemical

During February and March 2011, our intermediate holding companies, China Venture, China Vision, TurboRICH and Vivid Rise, were established. The entire share capital of China Venture is held by TurboRICH, which, in turn, is wholly owned by our Company. The entire share capital of China Vision is held by Vivid Rise, which is also wholly owned by our Company.

As part of our Group's internal restructuring of its businesses, the entire equity interest in North China Petrochemical was transferred from Advanced Grade to China Venture in May 2011, and the entire equity interest in Sino Asia Petrochemical was transferred from Advanced Grade to China Vision in July 2011, both at a nominal consideration of US\$1.

OUR HISTORY AND CORPORATE STRUCTURE

Following the restructuring, China Venture held the entire equity interest in North China Petrochemical, while China Vision held the entire equity interest in Sino Asia Petrochemical. The shareholding structure of our Group as of July 2011 was as follows:



Spin-off of marine fuel and diesel oil businesses and loan from ICBCI

Our Group had since 2009 been exploring new business opportunities involving marine fuel products. As the marine fuel and diesel oil businesses were in the infant stage of development and were not complementary to the lubricant additives and specialty fluorochemicals business of our Group, the Wei Family decided to segregate the two lines of businesses. Therefore, pursuant to an asset transfer agreement entered into between Jinzhou DPF-TH and Jinzhou Heisenberg on December 12, 2011, Jinzhou DPF-TH disposed of its assets relating to the marine fuel and diesel oil businesses to Jinzhou Heisenberg for a consideration of RMB929.0 million. The consideration was determined with reference to an independent valuation of the disposed assets, which mainly included equipment, technologies, land and constructions-in-progress. The parties further entered into another agreement in January 2012 to transfer additional assets at book value for approximately RMB9.5 million. The disposal resulted in a loss of approximately RMB283.1 million to our Group, which was recognized in our financial statements for the year ended December 31, 2011. Please see the section headed “Financial Information — Results of Operations — Year ended December 31, 2012 compared with year ended December 31, 2011” and Note 7 of the Accountant’s Report to this prospectus. Jinzhou Heisenberg is a company indirectly wholly owned by the Wei Family. See also the section headed “Relationship with Our Controlling Shareholders” regarding the different nature of the businesses of Jinzhou Heisenberg and our Group.

The disposals under the two agreements were completed in December 2011 and January 2013 respectively, with RMB124.8 million paid to us from December 2011 to 2013. As to the remaining RMB813.7 million (“**Outstanding Consideration**”), MegaSky, Crown Indigo and Gain Elite (the “**Borrowers**”) entered into a facility agreement (“**ICBCI Facility Agreement**”) in January 2014 with ICBC International Securities Limited (“**ICBCI**”) and obtained a loan facility for US\$150 million (“**ICBCI Loan**”) for up to 24 months. The ICBCI Loan was drawn down by the Borrowers in full and

OUR HISTORY AND CORPORATE STRUCTURE

used by Jinzhou Heisenberg to fully settle the Outstanding Consideration to Jinzhou DPF-TH in March 2014.

As security for the ICBCI Loan, the Borrowers have provided, among others, a second-ranking charge (“**Second Share Charge**”) on 5.1% of the ordinary shares of Driven Goal and its offshore subsidiaries (including our Company, Advanced Grade, TurboRICH, Vivid Rise, China Venture and China Vision) (“**Charged Shares**”) to ICBCI. Other terms of the ICBCI Loan, such as interest rates, costs and expenses, were on normal commercial terms agreed based on arms’ length negotiation between the Borrowers and ICBCI. The Borrowers repaid a portion of the ICBCI Loan in April 2014. The Second Share Charge will be released immediately before the Listing.

The Charged Shares were pledged to Victor Keen as first-ranking security on May 18, 2012 (“**First Share Charge**”) in relation to the Victor Keen’s investment in series A convertible preferred shares of Driven Goal. For details of Victor Keen’s investment and First Share Charge, please see “— Pre-IPO Investors of our Group — Series A Convertible Preferred Shares Investment by Victor Keen” below.

Introduction of Pre-IPO Investors

From January 2010 to November 2013, two of our Controlling Shareholders, Driven Goal and Gain Elite, received investments from the Pre-IPO Investors by way of Convertible Instruments comprising exchangeable loans, convertible preferred shares, exchangeable bonds and warrants. The Pre-IPO Investors (other than the warrant holders) will convert or exchange their Convertible Instruments into our Shares immediately prior to the Listing. Immediately following the Convertible Instruments having been converted or exchanged in full and the completion of the Global Offering (assuming the Over-allotment Option is not exercised), the Pre-IPO Investors will in aggregate hold approximately 16.382% of our total issued share capital.

The Pre-IPO Investors are Investec, Victor Keen and Victor Gloss, MSPEA, BOCI and PAG. See “— Pre-IPO Investors of our Group” below and Appendix III to this prospectus for further details of the investments by the Pre-IPO Investors and the Convertible Instruments, including the special rights attached to the Convertible Instruments. In the process of introducing the Pre-IPO Investors, the indirect shareholding interests of the Wei Family in Driven Goal were also slightly adjusted in May 2012, with Gain Elite, Crown Indigo and MegaSky holding 70.45%, 15.15% and 14.40% of the ordinary shares of Driven Goal respectively.

All the special rights enjoyed by the Pre-IPO Investors pertaining to our Group will be terminated upon full conversion or exchange of the Convertible Instruments immediately before the Listing.

Establishment of Tianhe Zhiye, Elite Choice, Grace Harvest and Tianhe Singapore

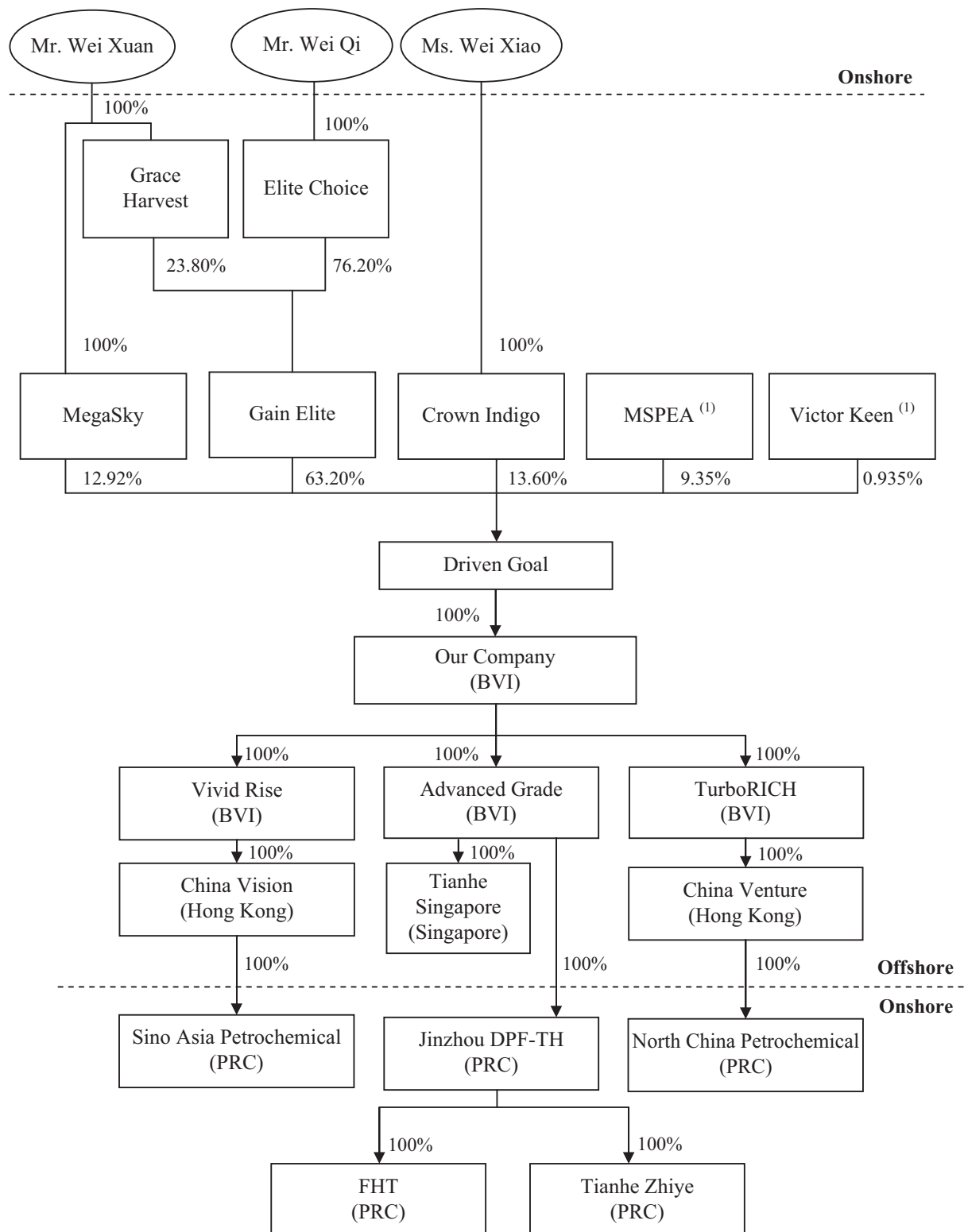
Tianhe Zhiye was established in 2013 and wholly owned by Jinzhou DPF-TH, so as to hold our properties for domestic uses such as staff quarters. Its registered capital as of the Latest Practicable Date is RMB8 million.

Elite Choice and Grace Harvest were established in 2013 by Mr. Wei Qi and Mr. Wei Xuan respectively for further restructuring of their interests in our Group. Mr. Wei Qi transferred his interests in Gain Elite to Elite Choice and Grace Harvest, which held 76.20% and 23.80% of the issued share capital in Gain Elite respectively as of the Latest Practicable Date.

Tianhe Singapore was established in March 2014 as our service company, and was wholly owned by Advanced Grade as of the Latest Practicable Date.

OUR HISTORY AND CORPORATE STRUCTURE

Prior to the Reorganization to be undertaken by our Group in preparation for the Listing and up to the Latest Practicable Date, the shareholding structure of our Group was as follows:



Note (1): Each of MSPEA and Victor Keen holds a certain number of Series A Preferred Shares in Driven Goal. For details, please see “— Pre-IPO Investors of our Group” of this section.

COOPERATION WITH THE TAIWAN CONSULTANT AND US SCIENTISTS TEAM

The establishment of FHT back in 2004 was the result of cooperation among the Wei Family, the Taiwan consultant Mr. Jimmy Chen and a group of US scientists. Based on the cooperation arrangement then agreed, (i) the Wei Family would own 55% equity interest in FHT by contributing factories, equipment and cash; (ii) the Taiwan consultant would own 25% equity interest in FHT, with 15% to be contributed by it in cash, and the remaining 10% contributed by the Wei Family as gift as recognition of his contribution in introducing the US scientists team to FHT, while the US scientists team would own 20% equity interest in FHT through their contribution of technical expertise, knowhow and patents. FHT was registered as a domestic company, and the interests of the Taiwan consultant and the US scientists team were held on trust by the Wei Family (through their interests in Liaoning Tianhe and Jinzhou Hengtong), in view of the uncertainty and investment risks surrounding the R&D of fluorochemical products.

The parties further entered into a series of agreements between 2006 and 2013 in respect of their cooperation. In late 2006, our Controlling Shareholders were considering a restructuring of our Group for a potential listing of its lubricant additives and specialty fluorochemicals businesses. As a result, on December 1, 2006, Mr. Wei Qi, Mr. Jimmy Chen and Dr. David Allen Flanigan entered into an “Agreement to Confirm the Shareholding (關於股份確定的協議書)” (“**2006 Agreement**”), pursuant to which it was agreed that, among others, (i) the Wei Family, the Taiwan consultant and the US scientists would respectively own 88.008%, 6.662% and 5.33% interests in the company to be listed (domestic or overseas); and (ii) Dr. David Allen Flanigan (as representative of the US scientists team) shall have the right to determine the distribution of such equity interests in the US scientists team. The aforementioned percentages were calculated by reference to (a) an estimation of the value of the net assets of Jinzhou DPF-TH by 2007 after the investment of the financial investors; (b) the value of the contribution made by the Wei Family in FHT; and (c) the respective interests of each party in FHT as agreed in 2004. In 2007, Dr. Flanigan allocated the 5.33% interests equally among himself, Dr. David Alan Offord and Dr. Paul Raphael Resnick.

In January 2008, the parties reaffirmed their understanding in the 2006 Agreement and entered into a further agreement (“**2008 Agreement**”). It was agreed that Mr. Wei Qi would hold the 6.662% and 5.33% interests in the company to be listed for Mr. Jimmy Chen and the US scientists team, respectively, until a final reorganization plan for listing was determined.

Later on, as our Company was considering a proposed initial public offering, Mr. Wei Qi and Mr. Jimmy Chen negotiated an adjustment to the 6.662% interests held by the Wei Family for Mr. Jimmy Chen. In light of the growth in scale and value of our Group, it was agreed that, through two agreements (“**2011 and 2013 Agreements**”) in August 2011 and 2013, the interests of the Taiwan consultant Mr. Jimmy Chen in the company to be listed was reduced to 4.500%. Such percentage was calculated based on the funds contributed by Mr. Jimmy Chen to FHT up to the end of 2012 and the aforementioned equity interest given to Mr. Jimmy Chen by the Wei Family as gift. The interests of the US scientists team remained unchanged at 5.33% in the 2011 and 2013 Agreements, which represented their pre-existing interests in our Company.

OUR HISTORY AND CORPORATE STRUCTURE

The above agreements had set out all interests and rights of the Taiwan consultant and the US scientists team in our Group. On March 2, 2014, Mr. Wei Qi, Mr. Jimmy Chen and David Allen Flanigan entered into an agreement (“**2014 Agreement**”) to implement the terms of the prior agreements, where it was set out that Mr. Wei Qi shall procure the transfer of the following shareholdings in our Company to Mr. Jimmy Chen and the US scientists team in accordance with the prior agreements:

<u>Team</u>	<u>Member</u>	<u>Number of Shares in our Company to be transferred by Driven Goal</u>	<u>Percentage of Shares in our Company immediately before the Listing</u>
Taiwan consultant	Mr. Jimmy Chen	1,057,050,000	4.500%
US scientists team	David Allen Flanigan	417,417,000	1.7770%
	David Alan Offord	417,299,000	1.7765%
	Paul Raphael Resnick	417,299,000	1.7765%
	Sub-total		<u>5.33%</u>

The abovementioned Shares will be transferred to Mr. Jimmy Chen and the respective member of the US scientists team by Driven Goal immediately prior to the Listing. See “— Reorganization” below.

Each of Mr. Jimmy Chen, Dr. David Allen Flanigan, Dr. David Alan Offord and Dr. Paul Raphael Resnick is not a connected person of our Company, and the Shares to be held by them shall be counted as part of the public float of our Company for the purpose of Rule 8.08 of the Listing Rules.

As advised by our PRC legal advisor, Commerce & Finance Law Offices, the 2004 cooperation, 2006 Agreement, 2008 Agreement, 2011 and 2013 Agreements and the 2014 Agreement reflected the true intention of the parties therein, and they have also confirmed that the conversion of interests in FHT belonging to the Taiwan consultant and US scientists team into the Shares in our Company in accordance with the aforementioned agreements did not contravene the relevant provisions of PRC laws.

PRE-IPO INVESTORS OF OUR GROUP

For the purpose of providing funding to expand the business of our Group, funds were raised indirectly by the issuance of the following convertible instruments by Driven Goal and Gain Elite to the Pre-IPO Investors.

Exchangeable loans by Investec

(a) US\$37 million exchangeable loan

On January 15, 2010, Investec entered into a loan agreement with Driven Goal (as borrower) and the Wei Family (as guarantors) pursuant to which Investec agreed to make available to Driven Goal a loan of US\$30 million (“**First Investec Loan**”) which may be exchanged into Shares held by Driven Goal. On February 6, 2010, the parties entered into a supplemental loan agreement pursuant to which the amount of the First Investec Loan was increased to US\$37 million. The loan agreement was further amended or supplemented on May 18, 2012 and December 16, 2013 to reflect certain changes

OUR HISTORY AND CORPORATE STRUCTURE

to the terms of the loan, the rights of Investec and the maturity date. We have set forth the major terms of the loan and the rights of Investec in further details in Part A of Appendix III to this prospectus.

(b) US\$ 30 million exchangeable loan

On December 24, 2010, Investec entered into another loan agreement with Driven Goal (as borrower) and the Wei Family (as guarantors) pursuant to which Investec agreed to make available to Driven Goal a loan of US\$30 million (“Second Investec Loan”, together with the First Investec Loan, the “**Investec Loans**”) which may be exchanged into our Shares held by Driven Goal. The loan agreement was further amended on May 18, 2012 and December 16, 2013 to reflect certain changes to the terms of the loan, the rights of Investec and the maturity date. Investec have also confirmed that they will exchange the Investec Loans into our Shares upon the Listing. We have set forth the major terms of the loan and the rights of Investec in further details in Part A of Appendix III to this prospectus.

Basis of Determining the Consideration

The consideration paid by Investec was the facility amounts under the First Investec Loan and Second Investec Loan (being US\$37 million and US\$30 million, respectively) and was determined based on arm’s length negotiation and by reference to the funding requirements of our Group at the time of the investment.

Security Arrangements

49.9% of the ordinary shares of Driven Goal and its certain offshore subsidiaries (including our Company, Advanced Grade, TurboRICH, Vivid Rise, China Venture and China Vision) were pledged to Investec as second-ranking security on March 21, 2012 to secure the obligations of the Wei Family, Driven Goal and other Group members under the aforementioned loan agreements. Such share charge will be released and discharged in full upon the exchange of the exchangeable loans into our Shares immediately before the Listing.

Accounting Treatment of the Investec Loans

Our Company is neither a party to the Investec Loans nor do we have any obligations thereunder. Upon exercise of the exchange rights under the Investec Loans, Driven Goal will transfer the relevant number of Shares held by it to Investec. Accordingly, the Investec Loans do not have any accounting impact on our Company.

Loans by Victor Gloss

(a) Victor Gloss Loans

On May 4, 2010, Driven Goal entered into a US\$100 million facilities agreement with, among others, Victor Gloss, which were divided into a US\$40 million tranche “A” term loan and a US\$60 million tranche “B” term loan. The facilities agreement was supplemented, amended and restated by a supplemental agreement dated July 30, 2010 to provide for a US\$25 million tranche “C” term loan (together with the US\$40 million tranche “A” term loan and the US\$60 million tranche “B” term loan, the “**Victor Gloss Loans**”).

OUR HISTORY AND CORPORATE STRUCTURE

(b) Victor Gloss's Warrant Instrument and Option Deed

In connection with the Victor Gloss Loans, Driven Goal (as the issuer) and Victor Gloss entered into a warrant instrument on May 4, 2010, which was amended and supplemented on June 20, 2011, December 20, 2011 and March 8, 2012 (the “**Victor Gloss Original Warrant Instrument**”). Pursuant to such warrant instrument, Driven Goal issued to Victor Gloss certain warrants convertible into Shares equivalent to no less than 1.25% of the share capital of our Company on a fully diluted basis (but excluding any issue of new shares at the Global Offering). The parties also entered into a deed of option on August 4, 2010, which was amended and supplemented on June 20, 2011 and March 8, 2012 (the “**Victor Gloss Original Option Deed**”, together with the Victor Gloss Original Warrant Instrument, the “**Victor Gloss Original Equity Instruments**”), pursuant to which Driven Goal granted to Victor Gloss an option to receive certain Shares in the amount of US\$30 million at 80% of the Offer Price.

(c) Repayment of the Victor Gloss Loans

The Victor Gloss Loans were repaid on March 21, 2012 using the proceeds received from the issue of US\$300 million series A convertible preferred shares by Driven Goal to MSPEA (as described below).

(d) Restructuring of the Victor Gloss Original Equity Instruments

On November 29, 2013, Driven Goal (as the issuer) and Victor Gloss entered into an agreement to cancel and terminate the Victor Gloss Original Equity Instruments in exchange for new warrants (“**Victor Gloss Warrants**”) to receive Shares held by Driven Goal equivalent to US\$59.13 million calculated at the Offer Price or cash settlement in the same amount at the option of Victor Gloss. The Victor Gloss Original Equity Instruments were restructured to ensure compliance with the recent listing decisions and guidance letters regarding pre-IPO investments promulgated by the Hong Kong Stock Exchange. We have set forth the major terms of the Victor Gloss Warrants and the rights of Victor Gloss in Part D of Appendix III to this prospectus.

Basis of Determining the Consideration

The revised warrant amount in respect of the Victor Gloss Warrants (US\$59.13 million) was determined based on arm's length negotiations between the parties taking into account the following factors:

- (i) the increase in valuation of the Company and the Shares from the date of the Victor Gloss Original Equity Instruments to the date of the Victor Gloss Warrants¹;
- (ii) the intrinsic value underlying the Victor Gloss Original Equity Instruments;
- (iii) the parties' agreement to adjust Victor Gloss's entitlements to the Shares under the Victor Gloss Original Equity Instruments; and
- (iv) the expiry date of the Victor Gloss Original Equity Instruments.

In consequence, the parties have agreed to restructure the Victor Gloss Original Equity Instruments such that the entitlement of Victor Gloss under the Victor Gloss Warrants will be capped

¹ Such increase in valuation was evidenced by, among other things, the significantly higher threshold of a qualified initial public offering (“IPO”) from US\$2 billion, as provided in the documentation in relation to the Victor Gloss Original Equity Instruments around 2010, to US\$7.8 billion (assuming the IPO takes place in 2014), as provided in the documentation in relation to the Series A Preferred Shares investment in Driven Goal by MSPEA in 2012.

OUR HISTORY AND CORPORATE STRUCTURE

at a fixed monetary value of US\$59.13 million, either in Shares at the Offer Price or in cash, without any further upside. No further payment is required by Victor Gloss in respect of the exercise of the Victor Gloss Warrants.

Accounting Treatment of the Victor Gloss Warrants

Our Company is neither a party to the Victor Gloss Warrants arrangements nor do we have any obligations thereunder. Upon exercise of the Victor Gloss Warrants by Victor Gloss to receive Shares, Driven Goal will transfer the relevant number of Shares held by it to Victor Gloss. Accordingly, the Victor Gloss Warrants do not have any accounting impact on our Company.

Victor Gloss elected for cash settlement in lieu of receiving Shares by notice to Driven Goal on March 4, 2014.

Loans by BOCI

(a) BOCI Loans

On July 2, 2010, Driven Goal (as the borrower) entered into a HK\$1,200 million facility agreement (the “**BOCI Facilities Agreement**”) with, among others, BOCI Leveraged & Structured Finance Limited (“**BOCI**”). The facility was divided into “**A**” and “**B**” term loan tranches (the “**BOCI Facility A Loan**” and the “**BOCI Facility B Loan**” respectively, and collectively the “**BOCI Loans**”), in the amount of HK\$420 million and HK\$780 million respectively.

(b) BOCI’s Warrant Agreement and Share Transfer Deed

In connection with the BOCI Loans, Driven Goal (as the issuer), the Wei Family (as guarantors) and BOCI entered into a warrant agreement on July 2, 2010, which was amended and supplemented on December 17, 2010, June 20, 2011 and May 16, 2012 (the “**BOCI Original Warrant Agreement**”). Pursuant to the facility agreements, Driven Goal issued to BOCI warrants convertible into Shares in the amount of US\$30 million at 80% of the Offer Price. The parties also entered into a share transfer deed on July 2, 2010, which was amended and supplemented on December 17, 2010, June 20, 2011 and May 16, 2012 (the “**BOCI Original Transfer Deed**”, together with the BOCI Original Warrant Agreement, the “**BOCI Original Equity Instruments**”). Pursuant to these agreements, Driven Goal granted to BOCI a right to receive certain Shares equivalent to 2.18% of the share capital of our Company on a fully diluted basis (but excluding any issue of new shares at the Global Offering).

(c) Repayment of the BOCI Loans

Approximately HK\$194 million under the BOCI Facility A Loan was repaid in 2010 using the US\$25 million tranche “**C**” term loan from Victor Gloss described above. The remaining outstanding portion of the BOCI Facility A Loan and the BOCI Facility B Loan was repaid in full on March 21, 2012 using the proceeds received from the issue of US\$300 million series A convertible preferred shares by Driven Goal to MSPEA (as described below).

(d) Restructuring of the BOCI Original Equity Instruments

On November 29, 2013, Driven Goal and BOCI entered into an agreement to cancel and terminate the BOCI Original Equity Instruments in exchange for new warrants (“**BOCI Warrants**”) to receive Shares held by Driven Goal equivalent to US\$63.50 million calculated at the Offer Price. The

OUR HISTORY AND CORPORATE STRUCTURE

BOCI Original Equity Instruments were restructured to ensure compliance with the recent listing decisions and guidance letters regarding pre-IPO investments promulgated by the Hong Kong Stock Exchange. We have set forth the major terms of the BOCI Warrants and the rights of BOCI in further detail in Part D of Appendix III to this prospectus.

Basis of Determining the Consideration

The revised warrant amount in respect of the BOCI Warrants (US\$63.5 million) was determined based on arm's length negotiations between the parties taking into account the following factors:

- (i) the increase in valuation of the Company and the Shares from the date of the BOCI Original Equity Instruments to the date of the BOCI Warrants¹;
- (ii) the intrinsic value underlying the BOCI Original Equity Instruments;
- (iii) the parties' agreement to adjust BOCI's entitlements to the Shares under the BOCI Original Equity Instruments; and
- (iv) the expiry date of the BOCI Original Equity Instruments.

In consequence, the parties have agreed to restructure the BOCI Original Equity Instruments such that the entitlement of BOCI under the BOCI Warrants will be capped at a fixed monetary value of US\$63.5 million, either in Shares at the Offer Price or in cash, without any further upside. No further payment is required by BOCI in respect of the exercise of the BOCI Warrants.

Accounting Treatment of the BOCI Warrants

Our Company is neither a party to the BOCI Warrants arrangements nor do we have any obligations thereunder. Upon exercise of the BOCI Warrants by BOCI to receive Shares, Driven Goal will transfer the relevant number of Shares held by it to BOCI. Accordingly, the BOCI Warrants do not have any accounting impact on our Company.

BOCI elected for cash settlement in lieu of receiving Shares by notice to Driven Goal on March 7, 2014.

Series A Convertible Preferred Shares Investment by MSPEA

On March 8, 2012, MSPEA entered into a convertible preferred shares subscription agreement with Driven Goal (as issuer), Gain Elite, Crown Indigo and MegaSky (as corporate controlling shareholders of Driven Goal) and the Wei Family (as individual controlling shareholders of Driven Goal), pursuant to which Driven Goal agreed to issue to MSPEA certain number of convertible preferred shares in the capital of Driven Goal ("**Series A Preferred Shares**"), which are convertible into our Shares (the "**MSPEA Series A Preferred Shares Subscription Agreement**"). In connection with this, MSPEA entered into a shareholders agreement on March 21, 2012 along with Driven Goal and the other then existing shareholders of Driven Goal, including Gain Elite, Crown Indigo, MegaSky and the Wei Family, which was amended and restated on May 18, 2012 following the subscription of Series A Preferred Shares by Victor Keen (as described below). We have set forth in Part B of

¹ Such increase in valuation was evidenced by, among other things, the significantly higher threshold of a qualified initial public offering ("IPO") from US\$2 billion, as provided in the documentation in relation to the BOCI Original Equity Instruments around 2010, to US\$7.8 billion (assuming the IPO takes place in 2014), as provided in the documentation in relation to the Series A Preferred Shares investment in Driven Goal by MSPEA in 2012.

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Appendix III the major terms of the Series A Preferred Shares and rights of MSPEA as provided under the MSPEA Series A Preferred Shares Subscription Agreement and the Amended and Restated Shareholders Agreement (as defined below).

Basis of Determining the Consideration

The consideration paid by MSPEA was the subscription price of the Series A Preferred Shares (US\$300 million) and was determined based on arm's length negotiation between the parties and by reference to the net asset value, earnings potential and growth prospects of our Group at the time of the investment.

Security Arrangements

51% of the ordinary shares of Driven Goal and its certain offshore subsidiaries (including our Company, Advanced Grade, TurboRICH, Vivid Rise, China Venture and China Vision) were pledged to MSPEA as first-ranking security on March 21, 2012 (and as amended on May 18, 2012) in relation to the MSPEA's Series A Preferred Shares investment. Such share charges will be released and discharged in full upon the mandatory exchange of the Series A Preferred Shares into our Shares immediately before the Listing.

Accounting Treatment of the MSPEA's Series A Preferred Shares investment

Our Company is neither a party to the MSPEA Series A Preferred Shares Subscription Agreement nor do we have any obligations thereunder. Upon exercise of the conversion rights under the MSPEA's Series A Preferred Shares, Driven Goal will transfer the relevant number of Shares held by it to MSPEA. Accordingly, the MSPEA's Series A Preferred Shares investment do not have any accounting impact on our Company.

Series A Convertible Preferred Shares Investment by Victor Keen

On March 8, 2012 and in connection with the MSPEA's Series A Preferred Shares investment, Victor Gloss entered into a letter agreement ("**ICBCI Participation Agreement**") with Driven Goal and the Wei Family in relation to the participation right granted to Victor Gloss (or its affiliates) to subscribe for Series A Preferred Shares in cash for an amount up to US\$30 million.

On May 17, 2012, Victor Keen, an affiliate of Victor Gloss, entered into a convertible preferred shares subscription agreement with Driven Goal (as issuer), Gain Elite, Crown Indigo and MegaSky (as corporate controlling shareholders of Driven Goal) and the Wei Family (as individual controlling shareholders of Driven Goal), pursuant to which Driven Goal agreed to issue to Victor Keen, and Victor Keen agreed to subscribe, certain number of Series A Preferred Shares (the "**Victor Keen Series A Preferred Shares Subscription Agreement**"). In connection with this, Victor Keen entered into an amended and restated shareholders agreement on May 18, 2012 along with other existing shareholders of Driven Goal, including Gain Elite, Crown Indigo, MegaSky, the Wei Family and MSPEA (the "**Amended and Restated Shareholders Agreement**"). We have set forth in Part B of Appendix III the major terms of the Series A Preferred Shares and rights of Victor Keen under the Victor Keen Series A Preferred Shares Subscription Agreement and the Amended and Restated Shareholders Agreement.

OUR HISTORY AND CORPORATE STRUCTURE

Basis of Determining the Consideration

The consideration paid by Victor Keen was the subscription price of the Series A Preferred Shares (US\$30 million) and was determined based on their entitlements pursuant to their participation right, as an affiliate of Victor Gloss, under the ICBCI Participation Agreement.

Security Arrangements

5.1% of the ordinary shares of Driven Goal and its certain offshore subsidiaries (including our Company, Advanced Grade, TurboRICH, Vivid Rise, China Venture and China Vision) were pledged to Victor Keen as first-ranking security on May 18, 2012 in relation to the Victor Keen's Series A Preferred Shares investment. Such share charges will be released and discharged in full upon the mandatory exchange of the Series A Preferred Shares into our Shares immediately before the Listing.

Accounting Treatment of the Victor Keen's Series A Preferred Shares investment

Our Company is neither a party to the Victor Keen Series A Preferred Shares Subscription Agreement nor do we have any obligations thereunder. Upon exercise of the conversion rights under Victor Keen's Series A Preferred Shares, Driven Goal will transfer the relevant number of Shares held by it to Victor Keen. Accordingly, Victor Keen's Series A Preferred Shares investment do not have any accounting impact on our Company.

Exchangeable bond investment by PAG

On August 21, 2012, PAG as investor entered into an exchangeable bond investment agreement with Gain Elite (as the issuer), pursuant to which Gain Elite agreed to issue to PAG secured exchangeable bonds due 2015 in the principal amount of approximately US\$35.30 million exchangeable into Shares ("**Exchangeable Bonds**"). We have set forth in Part C of Appendix III the major terms of the Exchangeable Bonds and rights of PAG under the exchangeable bond investment agreement.

Basis of Determining the Consideration

The consideration paid by PAG in exchange for our Shares was the principal amount of the Exchangeable Bonds (US\$35.30 million) and was determined based on arm's length negotiation between the parties and by reference to the net asset value, earnings potential and growth prospects of our Group at the time of the investment.

Security Arrangements

5.3% of the ordinary shares of Driven Goal and its certain offshore subsidiaries (including our Company, Advanced Grade, TurboRICH, Vivid Rise, China Venture and China Vision) were pledged to PAG as first-ranking security on August 23, 2012 in connection with the exchangeable bond investment agreement. Such share charges will be released and discharged in full upon the mandatory exchange or redemption of the Exchangeable Bonds immediately before the Listing, in any event no later than the date of completion of the Global Offering.

Accounting Treatment of the Exchangeable Bonds

Our Company is neither a party to the Exchangeable Bonds nor do we have any obligations thereunder. Upon exercise of the exchange rights under the Exchangeable Bonds, Gain Elite will transfer or procure its subsidiaries to the transfer the relevant number of Shares held by it to PAG. Accordingly, the Exchangeable Bonds do not have any accounting impact on our Company.

OUR HISTORY AND CORPORATE STRUCTURE

Background of the Pre-IPO Investors

Investec, formerly known as Investec Bank (UK) Limited, is a limited liability company incorporated in the United Kingdom. It is owned by Investec 1 Limited and Investec Holding Company (Nominees) Limited, and is ultimately controlled by Investec plc, an international specialist bank and asset manager, the shares of which are listed on the London Stock Exchange. As far as our Company is aware, the ultimate beneficial owners of Investec are independent third parties of our Company.

Each of Victor Keen and Victor Gloss is a company limited by shares incorporated in BVI and is indirectly wholly owned by the Industrial and Commercial Bank of China Limited, an international commercial bank the shares of which are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange. Victor Keen and Victor Gloss are independent third parties of our Company.

BOCI is a limited liability company incorporated in Hong Kong and is wholly owned by Bank of China Limited, an international commercial bank the shares of which are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange. BOCI is an independent third party of our Company.

MSPEA is an exempted company with limited liability incorporated in the Cayman Islands and is indirectly majority held and controlled by Morgan Stanley Private Equity Asia III, L.P., an exempted limited partnership managed by the private equity arm of Morgan Stanley. The general partner of Morgan Stanley Private Equity Asia III, L.P. is Morgan Stanley Private Equity Asia III, L.L.C., the managing member of which is Morgan Stanley Private Equity Asia III, Inc., a wholly owned indirect subsidiary of Morgan Stanley, the shares of which are listed on the New York Stock Exchange. MSPEA is an independent third party of our Company.

PAG is a limited liability company incorporated in BVI and is wholly owned by PAG Asia Loan Fund L.P.. PAG Asia Loan Fund L.P. is a Cayman Islands registered and exempted limited partnership whose principal investment objective is to provide superior risk adjusted returns by originating primary loans (particularly bridge financing or high yield debt investment opportunities) in Greater China, Australia and other regions across Asia. As far as our Company is aware, PAG is an independent third party of our Company.

Each of Investec, Victor Keen, Victor Gloss, BOCI, MSPEA and PAG is not a connected person of our Company and all the Shares to be held by them respectively upon the full exchange of the Convertible Instruments held by them shall be counted as part of the public float of the Company for the purpose of Rule 8.08 of the Listing Rules.

OUR HISTORY AND CORPORATE STRUCTURE

Exchange of the Convertible Instruments

As of the Latest Practicable Date, none of the Convertible Instruments has been exchanged into Shares of our Company. According to the terms of the Convertible Instruments as further set forth in Appendix III to this prospectus, the Convertible Instruments will be exchanged into Shares upon exercise of their exchange rights by the relevant Convertible Instruments holders or subject to mandatory and automatic exchange upon the Global Offering. The table below sets out details of the shareholding in our Company to be held by each of the exchangeable instrument holders assuming that the Convertible Instruments having been exchanged in full upon the Global Offering:

	Name of Pre-IPO Investor	Convertible Instrument	Number of Shares to be exchanged upon full exchange of the Convertible Instruments	Approximate cost per Share paid by each Pre-IPO Investor HK\$ ⁽¹⁾	Effective discount to the Offer Price ⁽²⁾	Approximate percentage of shareholding in our Company immediately before Listing	Approximate percentage of shareholding in our Company immediately upon Listing ⁽³⁾
1.	Investec	Exchangeable loans (US\$30 million and US\$37 million) in Driven Goal	1,532,017,000	0.34	83.00	6.522%	6.000%
2.	MSPEA	US\$300 million Series A Preferred Shares in Driven Goal	2,196,315,000	1.06	47.00	9.350%	8.602%
3.	Victor Keen	US\$30 million Series A Preferred Shares in Driven Goal	219,631,000	1.06	47.00	0.935%	0.860%
4.	PAG	US\$35.30 million exchangeable bonds in Gain Elite	234,900,000	1.17	41.50	1.000%	0.920%

Notes:

- (1) Assuming conversion of US dollars into Hong Kong dollars is based on the exchange rate of US\$1 to HK\$7.7532, the exchange rate as of May 23, 2014 as set forth on the H.10 statistical release of the U.S. Federal Reserve Board, and rounded figure.
- (2) Assuming the Global Offering will be conducted at the mid-point of the Offer Price range, being HK\$2.00, and based on the approximate cost per Share as set out in the adjacent column of this table.
- (3) Taking into account the New Shares to be issued in the Global Offering by our Company.

Each of Victor Gloss and BOCI has elected for cash settlement for the warrants they hold in lieu of receiving Shares.

The Joint Sponsors have confirmed that the pre-IPO investments by the Pre-IPO Investors are in compliance with (i) the Interim Guidance on Pre-IPO Investments issued by the Listing Committee of the Stock Exchange as the consideration for the pre-IPO investments was settled more than 28 clear days before the date of our first submission of the listing application form to the Listing Division of the Stock Exchange in relation to the Listing; (ii) the Guidance Letter HKEx-GL43-12 as the special rights granted to relevant Pre-IPO Investors will terminate upon Listing; and (iii) the requirements under the Guidance Letter HKEx-GL44-12 as no Convertible Instruments will be outstanding immediately upon Listing and no new Shares will be issued in connection with the conversion of the Convertible Instruments.

OUR HISTORY AND CORPORATE STRUCTURE

REORGANIZATION

Our Group will undertake the Reorganization in preparation for the Listing. The Reorganization involves the following steps:

Share split

Pursuant to a resolution in writing passed by the sole Shareholder of our Company on May 22, 2014, our Company subdivided each of the 46,500 issued and 4,953,500 unissued Shares with a par value of US\$0.01 each into 10,000 Shares with a par value of US\$0.000001 each, so that thereafter, (a) the maximum number of Shares which our Company was authorized to issue shall be 50,000,000,000 Shares with a par value of US\$0.000001 each; and (b) the number of issued Shares shall be 465,000,000 Shares of US\$0.000001 each, while the number of the unissued Shares shall be 49,535,000,000 Shares of US\$0.000001 each.

Capitalization issue

On May 22, 2014, our Directors capitalized US\$23,025 from the reserve account of our Company and applied the same amount in paying up in full 23,025,000,000 Shares at par, which was allotted and issued to the sole Shareholder of our Company, Driven Goal. Subsequent to the capitalization issue, our Company had 23,490,000,000 issued Shares, which were solely held by Driven Goal.

Reorganization for Pre-IPO Investors

As part of the Reorganization, the Pre-IPO Investors (other than BOCI and Victor Gloss) will convert or exchange their investments in Driven Goal into Shares of our Company, and they will hold in aggregate approximately 17.81% of Shares of our Company immediately prior to the Listing (without taking into account any new Shares to be issued in the Global Offering).

The reorganization for Pre-IPO Investors comprises the following steps:

- (a) as consideration for repurchasing the series A convertible preferred shares of Driven Goal held by MSPEA, Driven Goal will transfer to MSPEA 2,196,315,000 Shares of our Company, representing 9.350% of the total issued shares of our Company immediately prior to the Listing (without taking into account any new Shares to be issued in the Global Offering);
- (b) as consideration for repurchasing the series A convertible preferred shares of Driven Goal held by Victor Keen, Driven Goal will transfer to Victor Keen 219,631,000 Shares of our Company, representing 0.935% of the total issued shares of our Company immediately prior to the Listing (without taking into account any new Shares to be issued in the Global Offering);
- (c) in settlement of the loans due to Investec under the Investec Loans with principal amount of US\$67 million in aggregate, Driven Goal will transfer to Investec 1,532,017,000 Shares of our Company, representing 6.522% of the total issued shares of our Company immediately prior to the Listing (without taking into account any new Shares to be issued in the Global Offering); and
- (d) as redemption of the exchangeable bond held by PAG, Gain Elite will instruct Driven Goal to transfer to PAG 234,900,000 Shares of our Company, representing 1.000% of the total issued shares of our Company immediately prior to the Listing (without taking into account any new Shares to be issued in the Global Offering).

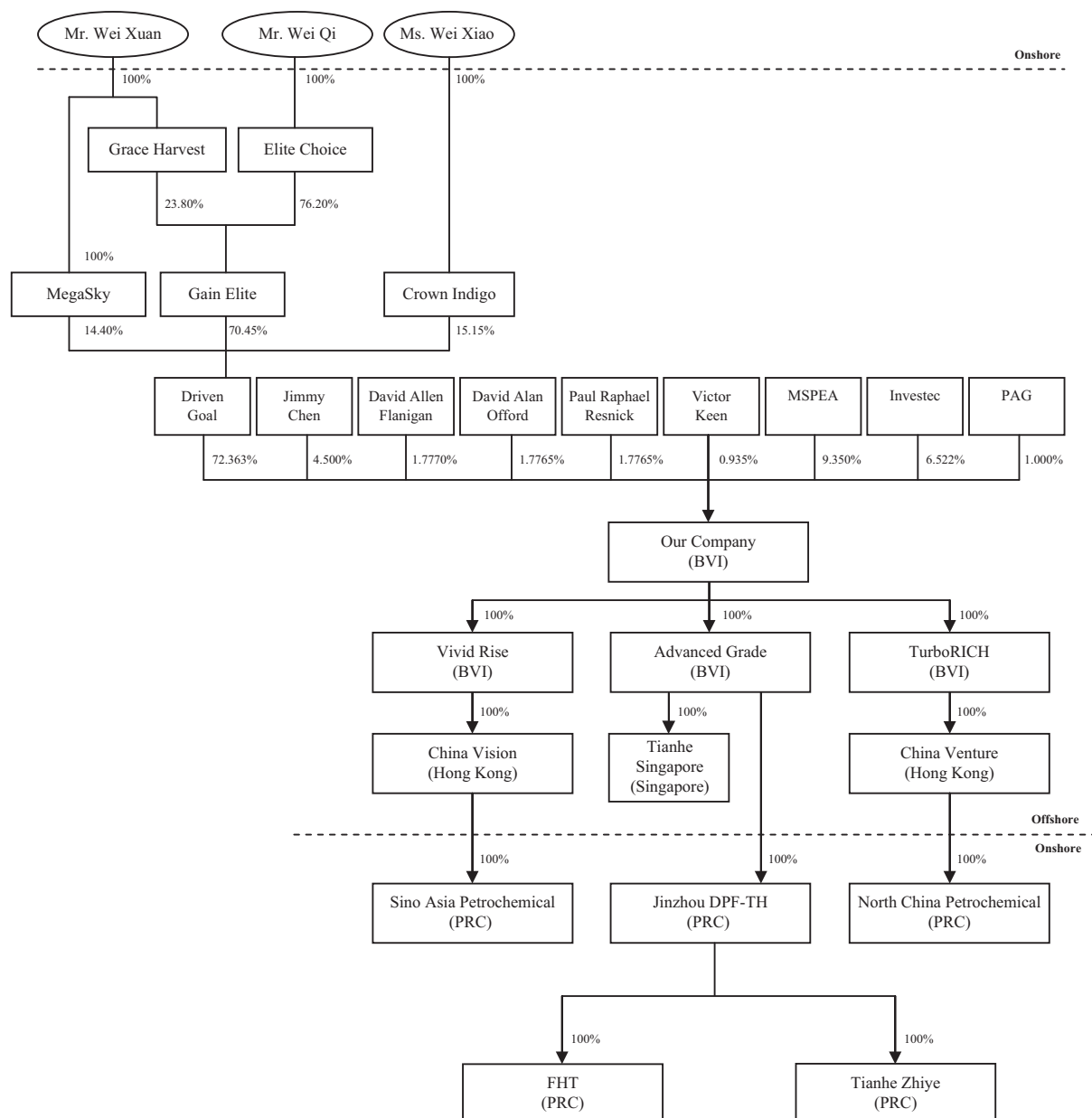
OUR HISTORY AND CORPORATE STRUCTURE

Transfer of Shares to the Taiwan consultant and the US scientists team

As described in “— Cooperation with the Taiwan Consultant and the US Scientists Team” above, Driven Goal will transfer to Mr. Jimmy Chen, Dr. David Allen Flanigan, Dr. David Alan Offord and Dr. Paul Raphael Resnick, 1,057,050,000, 417,417,000, 417,299,000, 417,299,000 Shares respectively, representing 4.500%, 1.7770%, 1.7765% and 1.7765% of the total issued Shares of our Company immediately prior to the Listing (without taking into account any new Shares to be issued in the Global Offering).

OUR CORPORATE STRUCTURE AFTER THE REORGANIZATION AND IMMEDIATELY BEFORE THE LISTING

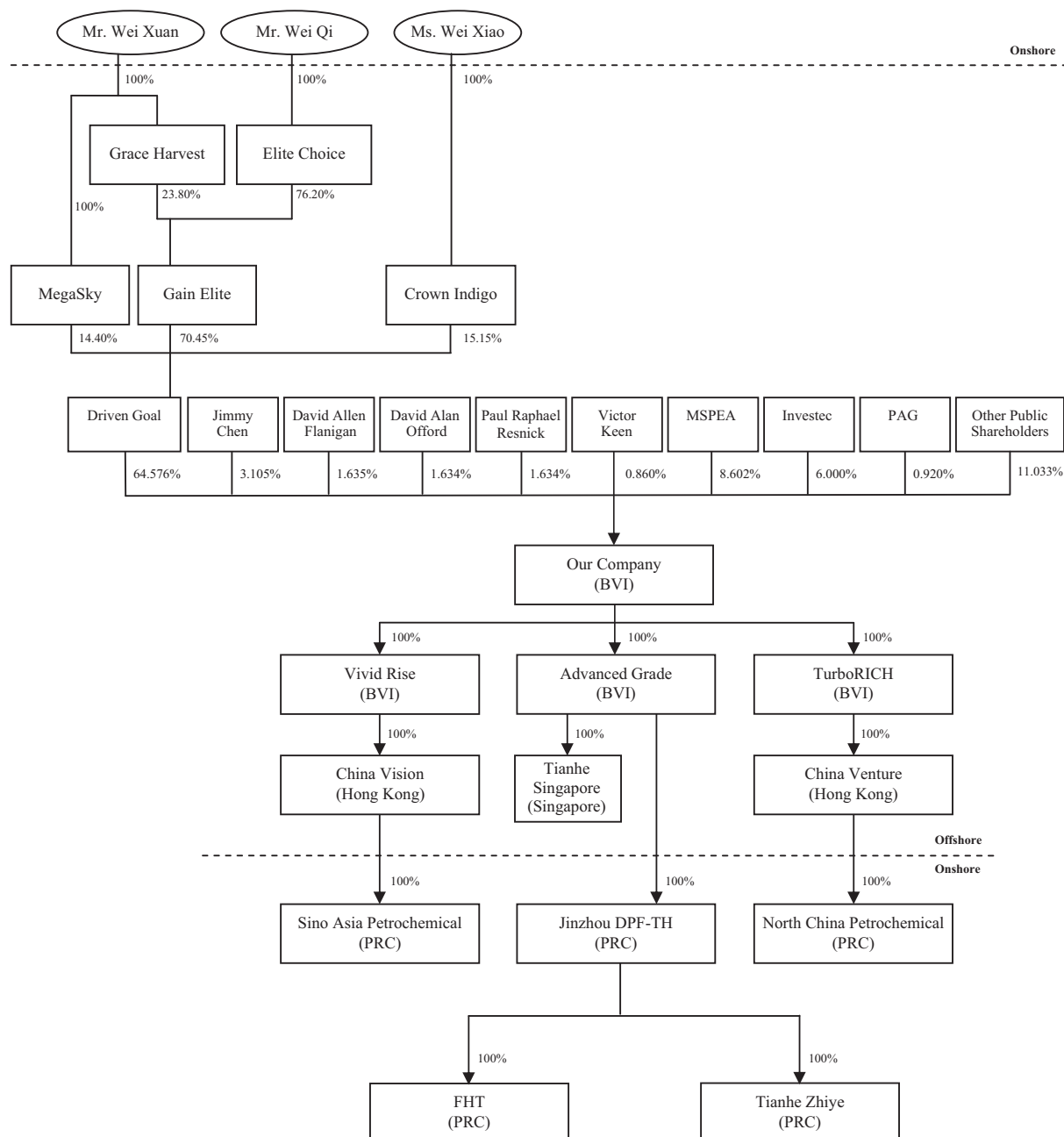
As a result of the Reorganization and immediately before the Listing, the shareholding structure of our Group will be as follows:



OUR HISTORY AND CORPORATE STRUCTURE

OUR CORPORATE STRUCTURE IMMEDIATELY UPON COMPLETION OF THE GLOBAL OFFERING AND THE LISTING

Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and no exercise of any option under the Share Option Scheme) and the Listing, the shareholding structure of our Group will be as follows:



COMPLIANCE WITH PRC LAWS

As advised by our PRC legal advisor, Commerce & Finance Law Offices, our Group's restructuring corporate actions concerning the transfers of equity interests in our PRC incorporated enterprises as described in this section have been properly and legally completed according to applicable PRC laws and regulations and all necessary approvals have been obtained.

OUR HISTORY AND CORPORATE STRUCTURE

SAFE REGISTRATION IN THE PRC

Pursuant to the State Administration of Foreign Exchange Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (“**SAFE Circular No. 75**”), issued on October 21, 2005, (i) PRC residents should register with the local branch of SAFE before establishing or controlling a privately held overseas special purpose vehicle (the “**overseas SPV**”) for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interest in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing assets or equity interest into an overseas SPV, such PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material event outside of the PRC, such as a change in share capital, merger and acquisition, share transfers or exchanges, spin-off transactions or long-term equity or debt investments, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. In May 2007, SAFE issued guidance to its local branches with respect to the procedures for SAFE registration which strengthen the supervision of registrations pursuant to SAFE Circular No. 75 and impose obligations on onshore subsidiaries of the overseas SPVs to coordinate and supervise the relevant PRC residents to complete registration. Under the SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary’s foreign exchange activities and its ability to distribute dividends to overseas SPV, as well as the imposition of penalties in accordance with the law.

Our PRC legal advisor, Commerce & Finance Law Offices, has advised that the Wei Family, being the relevant beneficial shareholders of our Group and who are domestic residents of the PRC, have completed their foreign exchange registration of overseas investments with the local SAFE branch on April 2, 2013 and November 25, 2013 respectively, in relation to their current shareholdings in our Group, as required under the SAFE Circular No. 75.

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS IN THE PRC

On August 8, 2006, six PRC governmental and regulatory agencies, including MOFCOM and the China Securities Regulatory Commission (the “**CSRC**”), promulgated the Regulation on the Merger and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “**M&A Rules**”) which became effective on September 8, 2006 and was revised on June 22, 2009. Pursuant to Article 11 of the M&A Rules, where a domestic individual person intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of the Ministry of Commerce of the PRC. As advised by the Company’s PRC legal advisor, Commerce & Finance Law Offices, the Group’s restructuring and reorganization corporate actions were not subject to the M&A Rules.

COMPLIANCE WITH PRC LAW

Our PRC legal advisor, Commerce & Finance Law Offices, has also confirmed that we have complied with all applicable PRC rules and regulations and have obtained all relevant approvals from PRC government authorities for the Reorganization and the Listing and that we are not required to obtain approval from the CSRC, MOFCOM or other relevant PRC authorities for the Listing.

OUR HISTORY AND CORPORATE STRUCTURE

LOCK-UP UNDERTAKINGS

Mr. Jimmy Chen will enter into a deed of lock-up undertaking in favor of our Company prior to the Listing, in which he will agree that he will not dispose of any of the Shares (save for the Shares to be disposed of by him as a Selling Shareholder as contemplated in this prospectus) to be held by him (“**Taiwan Consultant’s Relevant Shares**”) until the end of the lock-up period as detailed below:

<u>Percentage of Taiwan Consultant’s Relevant Shares</u>	<u>End of lock-up period</u>
As to 25% of the Taiwan Consultant’s Relevant Shares	upon the Listing Date, or June 30, 2019, whichever is earlier.
As to 15% of the Taiwan Consultant’s Relevant Shares	the expiry of six months from the Listing Date, or June 30, 2019, whichever is earlier.
As to 30% of the Taiwan Consultant’s Relevant Shares	the third anniversary of the Listing Date, or June 30, 2019, whichever is earlier.
As to 30% of the Taiwan Consultant’s Relevant Shares	the fifth anniversary of the Listing Date, or June 30, 2019, whichever is earlier.

Each of Dr. David Allen Flanigan, Dr. David Alan Offord and Dr. Paul Raphael Resnick (each a “**Covenantor**”) will enter into a Deed of Lock-up Undertaking respectively in favor of our Company prior to the Listing, in which the Covenantor will agree that he will not dispose of any of the Shares to be held by him (“**US Scientist’s Relevant Shares**”) until the end of the lock-up period as detailed below:

<u>Percentage of US Scientist’s Relevant Shares</u>	<u>End of lock-up period</u>
As to 40% of the US Scientist’s Relevant Shares	the expiry of six months from the Listing Date, or June 30, 2019, whichever is earlier.
As to 30% of the US Scientist’s Relevant Shares	the third anniversary of the Listing Date, or June 30, 2019, whichever is earlier.
As to 30% of the US Scientist’s Relevant Shares	the fifth anniversary of the Listing Date, or June 30, 2019, whichever is earlier.

Each of MSPEA, Investec, PAG and Victor Keen agrees that, it will not, at any time during the period of six months following the Listing Date, dispose of any of its Shares.

OVERVIEW

We are a leading specialty chemicals producer with its headquarters in the PRC. We have two principal business segments, namely, lubricant additives and specialty fluorochemicals. According to Frost & Sullivan, in 2013, we were the largest lubricant additives producer headquartered in the PRC and the sixth largest lubricant additives producer in the world in terms of revenue and one of only five comprehensive multi-line lubricant additives manufacturers in the world. According to Frost & Sullivan, in 2013, we were also the largest specialty fluorochemicals producer headquartered in the PRC in terms of revenue.

We believe our success can be attributed to our technological advantages. According to Frost & Sullivan, our lubricant additives product portfolio was among the most comprehensive in the PRC and we were the only company headquartered in the PRC capable of producing long-chain linear alkyl benzene sulphonic acid, which is an important raw material for high-grade lubricant additives. According to Frost & Sullivan, we are the only company worldwide that has developed the expertise in telomerization technology under moderate temperature and pressure, resulting in a safer production process and lower production costs, as compared to the traditional specialty fluorochemicals production process. In addition, according to Frost & Sullivan, we are capable of producing specialty fluorochemicals through a PFOA- and PFOS-free process. This enables us to capitalize on the opportunities in light of the increasingly stringent enforcement of global regulation against PFOA and PFOS, environmentally hazardous contaminants.

Our competitive advantages lie in the breadth of our product portfolio, advanced technologies, capability to consistently produce and supply qualified products as well as diligence in providing quality after-sales services. As a result we have been able to deliver continuous growth while maintaining profitability. During the Track Record Period, we derived revenue from sales of lubricant additives and specialty fluorochemical products. Our revenue was RMB3,359.4 million, RMB4,192.6 million and RMB5,033.8 million for the years ended December 31, 2011, 2012 and 2013, respectively, representing a CAGR of 22.4%. Our net profit was RMB948.1 million, RMB2,190.0 million and RMB2,626.2 million for the years ended December 31, 2011, 2012 and 2013, respectively, representing a CAGR of 66.4%.

We value our corporate social responsibilities and have been, and intend to remain, committed to environmental protection and safety in all of our business activities. As advised by our PRC legal adviser, as of the Latest Practicable Date, we have obtained all material permits, licenses and approvals relating to environmental protection and safety production. In addition, as of the Latest Practicable Date, we have obtained *Quality Management System ISO9001*, *Environmental Management System ISO14001* for each of our production facilities in operation. As of the Latest Practicable Date, the operating facilities of Jinzhou DPF-TH and FHT have obtained *Occupational Health and Safety Management System GB/T28001-2011* and *GB/T28001-2001* certifications, respectively.

COMPETITIVE STRENGTHS

We are the leading specialty chemicals producer headquartered in the PRC focusing on the high growth and high margin markets of lubricant additives and specialty fluorochemical products

According to Frost & Sullivan, in 2013, we were the largest lubricant additives producer headquartered in the PRC and the sixth largest lubricant additives producer in the world in terms of revenue and one of only five comprehensive multi-line lubricant additives manufacturers in the world. According to Frost & Sullivan, in 2013, we were also the largest specialty fluorochemicals producer

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headquartered in the PRC in terms of revenue. Capitalizing on our products' technical performance, significant value added to end-users and low costs relative to the overall costs of our customers' end products, we have been highly cash generative as demonstrated by the strong increase in our cash generated from operations during the Track Record Period.

As of December 31, 2013, we were capable of producing 93 lubricant additives, including 59 types of individual lubricant additive components and 34 lubricant additive packages, which makes our product portfolio among the most comprehensive in the PRC according to Frost & Sullivan. We have met the stringent qualifications requirements of our customers for our products to be used by various leading global lubricant producers. Capitalizing on our strong R&D capabilities, sound quality control system and extensive industry experience, we have been supplying products to CNPC and Sinopec (and their respective subsidiaries) since the inception of our Company. Building on our experience as long-standing supplier to CNPC and Sinopec (and their respective subsidiaries), our strong R&D capabilities, quality control system, profound knowledge of the industry and track record of compliance with applicable environment, health and safety regulations, we have also successfully passed rigorous certification processes set forth by other leading multinational lubricant manufacturers to supply products to them, including Total, JX Nippon Oil & Energy and a multinational lubricant manufacturer in Europe. As of December 31, 2013, we were capable of producing over 160 types of specialty fluorochemical products. In addition, as of the Latest Practicable Date, our in-house R&D department was developing 15 types of downstream specialty fluorochemical products and six fluorinated lubricant additives. Since 2011, we have developed and launched 11 downstream specialty fluorochemical products into commercial production through our in-house R&D efforts. Internationally, we have recently signed a non-legally binding framework agreement with a well-known multinational fluorine chemical company in Japan to develop a strategic cooperation and supply partnership in the specialty fluorochemical business. For more detailed description of our R&D projects, please see the section headed “— Research and Development.” Under the specialty fluorochemicals segment, we sold our products to manufacturers, who use our products to manufacture other downstream products. We also sold our products to trading companies, including a subsidiary of one of the largest conglomerates in China, who further resold our products to their clients, a large proportion of which are in overseas. Through years of efforts and leveraging our advanced manufacturing technologies, we have successfully established our premium market recognition in the industry and have been steadily expanding our customer base, particularly multinational specialty fluorochemical producers.

We attribute our success to developing new applications, displacing products previously imported into the PRC and successfully reaching international customers using our technological edge, lower production costs and superior customer service. We focused on the high growth and high revenue generating markets of lubricant additives and specialty fluorochemical products. The lubricant additives markets in China and globally amounted to US\$1.93 billion and US\$15.6 billion, respectively, in 2013. According to Frost & Sullivan, demand for lubricant additives in the PRC is expected to grow at 4.7% per year over the next five years, substantially faster than the expected overall global growth of 1.3% for the same period. The expected favorable lubricant additives growth outlook in the PRC is driven by a number of factors, which are expected to be especially beneficial to us, including (i) increasing demand for vehicles, especially luxury cars and trucks, (ii) stricter emissions regulations, (iii) improving engine oil quality, (iv) increasing standards set by OEMs seeking to improve vehicle efficiency, (v) increase in high-speed railway market, and (vi) expanding industrial production. For details, please see the section headed “Industry Overview — Lubricant Additives.”

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The specialty fluorochemicals markets globally and in China amounted to US\$9.0 billion and US\$3.0 billion, respectively, in 2013. According to Frost & Sullivan, demand for specialty fluorochemicals in the global market is expected to grow at 9.7% per year over the next five years while the PRC market is expected to grow at an even faster pace of 15.6% over the same period. The expected favorable specialty fluorochemicals growth outlook in the PRC is driven by a number of factors, which are expected to be especially beneficial to us, including (i) government policies supporting the specialty fluorochemicals industry in the PRC to enable continued upgrading of China's industrial base, (ii) environmental policies that will drive demand for specialty fluorochemicals produced with our technologically advanced and environmentally-friendly telomerization processes which are PFOA- and PFOS-free, (iii) governmental limitations on the export outside China of fluorspar, the ultimate raw material used for the production of R-22 which is used for producing specialty fluorochemicals, and (iv) rapidly increasing application of specialty fluorochemicals in various industries, such as coatings, oil and gas, textiles, healthcare, crop protection, electronics and automotive. For details, please see the section headed "Industry Overview — Specialty Fluorochemicals."

We are well positioned to benefit from the attractive outlook, especially in the PRC, for the lubricant additives and specialty fluorochemicals industries, which are highly structured and have substantial barriers to entry

We have a proven track record of identifying high growth specialty chemicals market segments. Our products constitute the critical components that provide the fundamental desired capabilities and effects that allow customers to sell their own products at a premium price. Lubricant additives are critical in achieving the efficient, durable and environmental-friendly operation of different types of engines and industrial machinery. Similarly, specialty fluorochemicals are high revenue generating chemicals which are critical to the technical capability of a broad range of end-products serving a diversified range of industries. As customers seek to improve the technical performance of their own products, the critical role played by lubricant additives and specialty fluorochemical products will become more important. We believe our success in the lubricant additives and specialty fluorochemicals markets depends on our ability to compete successfully in these highly technologically intensive industries, as well as our capability to identify, develop and improve the performance of a broad range of lubricant additives and specialty fluorochemical products which meet the stringent technical performance requirements of customers.

Capitalizing on our leading market position in China, in particular, our strong R&D capabilities and quality control system, we are well positioned to take advantage of the expected market growth in China to expand our business operations, in particular through capturing newly added market demand and replacing international imports in the supply of both lubricant additives and specialty fluorochemical products in China. According to Frost & Sullivan, in 2013, 51% of lubricant additives used and a significant portion of specialty fluorochemical products in China were still imported from overseas suppliers. According to the 12th Five-Year Plan, the PRC government aims to improve the domestic supply of specialty fluorochemicals in China, which creates market opportunities for domestic suppliers like ourselves to capture.

According to Frost & Sullivan, in 2013, we were one of the top six largest lubricant additives producer in the world and the largest lubricant additives producer in China, in terms of revenue. Following substantial global consolidation over the last 20 years, in 2013, the top six lubricant additives players (including us) accounted for over 90% of total global lubricant additives market by revenue, according to Frost & Sullivan. According to Frost & Sullivan, we have developed the

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expertise in telomerization technology to produce specialty fluorochemical products in a process that is PFOA- and PFOS-free. According to Frost & Sullivan, we are the only company worldwide to produce specialty fluorochemical products under moderate temperature and pressure and flexible telomerization process, resulting in a safer production process and lower production costs, which is environmentally friendly and complies with international environment standards as well as increasingly stringent PRC environmental regulations. As a result, we expect to achieve a sustainable increasing market share in the specialty fluorochemicals industry. For details of our PFOA- and PFOS-free telomerization process, please see the section headed “— Business and Products — Specialty Fluorochemicals Segment — Production Procedures.”

The attractive structure of the lubricant additives and specialty fluorochemicals industries is due in part to the numerous and substantial barriers to entry that exist for potential market entrants. These barriers include (i) the need for technical expertise, including production technology and know-how, to handle the complex chemistry involved in these product segments; (ii) the need to have strong technical services and customer support functions; (iii) access to competitively priced raw materials; (iv) access to highly qualified staff, of which there are few given the specialized nature of these industry segments; (v) substantial R&D and testing capabilities required to develop and support highly technical products; (vi) technical knowledge and operational flexibility to adapt to regulatory changes; (vii) sufficiently wide product ranges with products of sufficient high levels of purity and quality to meet customers’ needs; (viii) relationships with all customer categories, including the ability to act as a partner for critical products for key customers; (ix) time to achieve sufficient scale, given the duration (often years) required for developing, testing and qualifying of products and processes; (x) a track record of success operating in the PRC, and (xi) significant financial capacity and established scale to respond to the evolving and increasingly stringent regulatory processes and to obtain the necessary licenses and approvals. We believe that by leveraging these entry barriers and capitalizing on our competitive advantages in terms of R&D, quality control, cost management and environment protection, we are well positioned to capture the expected market growth in China and further expand our overseas business.

We have strong R&D capabilities with a track record of developing and commercializing innovative products and processes

Our in-house development of the key technical competencies and production capabilities needed to participate effectively in the lubricant additives and specialty fluorochemicals industries reflect our success in creating a culture of innovation that has attracted key global industry experts and enabled them to be highly productive, establishing a track record of product and process innovations.

Our R&D team has successfully enabled us to attain our leading market position through understanding and anticipating market demand, developing new products and improving existing products based on our customers’ specifications. Since 2011, we have successfully developed 11 downstream specialty fluorochemical products into commercial production through in-house R&D efforts, of which four products were introduced to the market in 2011 and commercial production of the other seven began in 2013. As a result, sales of these downstream specialty fluorochemical products increased from RMB289.8 million in 2011 to RMB1,343.1 million in 2012 and further to RMB1,702.4 million in 2013. We have also successfully completed multiple rounds of upgrades to the production process of specific specialty fluorochemical products through our in-house R&D efforts, which have improved our production efficiency and quality control results. In particular, we managed

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to produce many products through technological innovation to meet specific requirements from customers from a wide ranging of industries, including PFOA- and PFOS-free products for global cosmetic producers, specialty fluorochemicals used by a multinational aircraft manufacturer for the batteries installed in its next generation flagship aircraft, fluoro telomer-based monomers for a plasma delivery system, high quality fluoro telomer iodides for high-intensity wear applications, fire fighting foam containing fluoro-surfactant and fluorine containing fluids designed for use in repairing detached retinas. We have also successfully improved the performance of certain specialty fluorochemicals, including leather treatment agents, according to specific requests from customers, resulting in an increase in revenue from sales of those products.

We continue to seek to develop or improve products and processes to meet customer demands, to further enhance the performance of certain products and to respond to changes in environmental regulations. As of December 31, 2013, we had 50 R&D programs, including (i) 29 new lubricant additives, comprising 14 individual lubricant additive components targeting high-end and high revenue generating lubricant additives that can be utilized in engines of high-speed locomotives and advanced marine ships and 15 lubricant additive packages and industrial oil packaged products, all for a range of industries including automobiles, ships and manufacturing; (ii) 15 new specialty fluorochemical products, focusing on downstream specialty fluorochemical products including agents used in water-repellent and environmentally friendly paints, fluorochemical surfactants to improve performance of products used in oil extraction and transportation and agents to improve the efficiency of fuel consumption; and (iii) six fluorinated lubricant additives for the automotive industry.

We have patents in the PRC to protect new synthesis processes for the production of our products. As of the Latest Practicable Date, we owned 25 patents and have made five patent applications in China.

Our highly skilled R&D team consists of international and Chinese product and process experts with long and distinguished careers with global recognition in their respective fields, supported by a highly motivated technical staff. We have one central R&D facility and one supporting R&D laboratory located at our headquarters. In addition, we have established two R&D laboratories located at the Fuxin production facility and the Bawang Village production facility. Together, these facilities housed 105 R&D staff, comprising 14 scientists, and 91 research staff as of February 28, 2014. For instance, our Chief Technical Officer for surface protectants, has nearly 20 years of working experience in specialty fluorochemical industry and received *the 2006 American Association of Textile Chemists and Colorists (AATCC) Henry E. Millson Award for Invention* for his achievement in nanotechnology for oil and water repellent finishing of textiles. In addition, our Chief Scientist who is in charge of development and research of new products and production processes has decades of experience in the specialty chemicals industry and received various awards for his contribution and achievements, including *American Chemical Society Award for Creative Work in Fluorine Chemistry* in 1995, *DuPont Lavoisier Medal for Scientific Achievement* in 1996 and *Award for Outstanding Contribution and Innovation in Fluoropolymer Science* in 2008. He was the former Chairman of the Fluorine Division of the *American Chemical Society* and has received the *American Chemical Society's Award* in Fluorine Chemistry. For more information about our scientists, please also see the section headed "Directors and Senior Management."

We intend to continue to leverage our technology and R&D capabilities to produce additional higher value-added lubricant additives and specialty fluorochemical products, as well as novel and improved production processes.

We have industry-leading production practices, combining proprietary technologies with flexible operations

We have been able to develop state of the art production facilities employing some key proprietary production technologies and capabilities. Moreover, in keeping with our strong focus on product quality and consistency, manufacturing efficiency, safety and environmental responsibility, we believe our manufacturing process has distinguished us from other competitors.

Leveraging the significant capabilities and experience in process development of our R&D team, we have developed some key proprietary production technologies and capabilities:

- According to Frost & Sullivan, we are the only company worldwide capable to produce and supply long-chain linear alkyl benzene sulphonic acid, an important raw material for high-grade lubricant additives. For more information about the chemical features of long-chain linear alkyl benzene sulphonic acid, please refer to the section headed “Business – Business and Products”.
- According to Frost & Sullivan, we are the only company worldwide, to have developed the expertise in telomerization technology to produce specialty fluorochemical products under moderate temperature and pressure, resulting in a safer production process and lower production costs compared to the traditional process.
- According to Frost & Sullivan, we are capable of producing specialty fluorochemical products through a PFOA- and PFOS-free process, which makes us well-positioned to capture the opportunities presented by the increasingly stringent enforcement of global market against using PFOA and PFOS, which are environmentally hazardous contaminants.
- We have established a comprehensive structure ensuring the compliance with applicable PRC laws and regulation as well as the strict implementation of our environmental protection policies and procedures. As of the Latest Practicable Date, we have obtained *Quality Management System ISO9001* and *Environmental Management System ISO14001*. In addition, as of the Latest Practicable Date, Jinzhou DPF-TH and FHT have obtained *Occupational Health and Safety Management System GB/T28001-2011 and/or GB/T28001-2001* certifications for their production facilities in operation, respectively.
- A “zero waste” production approach focused not only on maximizing the yield of the desired products, but also on converting any by-products to saleable products wherever possible, so as to maximize profitability and environmental responsibility.
- A highly flexible production platform, with multiple production routes to any product, with the ability to rapidly switch production between products using the same equipment, and so enabling us to quickly respond to customer needs and market dynamics. We manage production facilities to maximize the returns on our existing production capacity.
- A track record of producing high quality products, with the highest purity in the industry, and with the consistency that makes us a reliable partner to our customers.

We have established strong relationships with major global and domestic PRC customers

We have long-standing strong relationships with well-known PRC and international companies. Our capability to produce a broad range of products has allowed us to become the leading

manufacturer of these products in China. As such, we are an essential supplier to some of the largest industrial and petroleum products companies in the PRC and the world and accordingly, we can leverage our relationships and experience to speedily achieve product development and achieve future growth. Our relationships with our customers are strong and long-lasting because once a reliable supplier of these essential technical products is found, customers have few incentives to switch to an alternate supplier because of the (i) rigorous, expensive and time-consuming testing and certification process that the customer may take to qualify a candidate supplier; (ii) limited number of available suppliers given the technical complexity of developing and manufacturing these products; (iii) the fact that we establish our relationships at an early stage with our customers and such relationships become entrenched as we collaboratively develop new products to cater to our customers' needs; (iv) the fact that only a relatively small part of customers' total production cost is incurred in relation to these products; and (v) quality of our after-sales services.

In lubricant additives segment, we have been a critical supplier in the PRC to both CNPC and Sinopec (and their respective subsidiaries and branches) since the inception of our Company, helping to ensure that their branded lubricant products, such as “Kunlun” (昆仑) and “Great Wall” (长城) achieve the results for which they are well known. Total, JX Nippon Oil & Energy and a multinational lubricant manufacturer in Europe have also recognized us as a qualified supplier for lubricant additives. In addition, we are actively exploring overseas markets, particularly those markets with high growth potential for lubricant additives, including South East Asia, the Middle East and Africa. In the specialty fluorochemicals segment, we have established long-term relationships with downstream specialty fluorochemicals developers and manufacturers, and large-scale trading companies such as a subsidiary of one of the largest conglomerates in China. Internationally, we have recently signed a non-legally binding framework agreement with a well-known multinational fluorine chemical company in Japan to develop a strategic cooperation and supply partnership in the specialty fluorochemical business. We have a fast growing sales and marketing platform to serve key PRC and international customers.

We have a proven track record of growth and profitability, generating significant operating cash flow

We have a proven track record of growth and profitability. Our revenue increased from RMB3,359.4 million in 2011 to RMB5,033.8 million in 2013, representing a CAGR of 22.4%. This revenue growth has been achieved by taking advantage of the strong increase in demand for lubricant additives and specialty fluorochemicals, especially in the PRC. The further planned production capacity expansion and continued focus on higher value products are expected to enable us to further this growth path.

We believe that our rapid growth in revenue and profit during the Track Record Period was primarily attributable to our competitive advantages in terms of the breadth of our product portfolio, advanced technologies we utilized in production, capability in offering a stable supply of qualified products and diligence in providing quality after-sales services and maintaining long-term cooperative relationships with relevant customers. In addition, due to our cost-efficient production platform, achieved through our quality controls and management systems, the long-term relationships we have with key raw materials suppliers allow us to better predict raw material needs and achieve attractive pricing terms, as well as the overhead and personnel costs that management believes are significantly lower than for our international competitors, we have been able to deliver continuous growth while maintaining profitability. Moreover, we are able to leverage our flexibility by adjusting production processes to optimize the mix of end products we produce to attain higher margins. We target to improve and maintain our profitability through focusing on those high-margin products along the

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production chain where we have advanced technology. Our gross margins increased during the Track Record Period, from 44.4% in 2011 to 60.5% in 2013, and net income margins, in particular, rose substantially, from 28.2% in 2011 to 52.2% in 2013 due to our focus on high revenue generating, high growth products as well as our operating efficiency.

Our business has also been highly cash generative as demonstrated by the strong increase in our cash generated from operations during the Track Record Period, which grew from RMB1,196.2 million in 2011 to RMB2,146.8 million in 2012 and further to RMB2,485.6 million in 2013, representing 126.2%, 98.0% and 94.6% of net profit for the same periods.

We have a highly experienced management team, and strong corporate governance

Over our history, we have demonstrated a track record of identifying and capturing the high revenue generating products and the ability to efficiently develop our advanced technologies into commercial sales production. Under the leadership and strategic vision and direction of Mr. Wei Qi and Mr. Wei Xuan, we identified the high growth and high revenue generating market of lubricant additives and then expanded into the specialty fluorochemical products market. We have built a business with a proven track record of success, reaching a clear domestic and international leadership position in the lubricant additives and specialty fluorochemicals industries, while delivering significant growth, profitability and returns to our shareholders.

In particular, by fostering a culture of technological innovation and business entrepreneurship, we have been able to attract a group of international technical and product experts, many of whom are now our shareholders, and pair them with an experienced team of operational managers with extensive experience running production facilities in the PRC. Overall, our senior management team has on average, approximately 20 years of experience in the chemicals sectors, and most of whom have worked with us for a number of years. We believe our corporate culture contributes to a highly motivated team with a favorable mix of complementary skills. We have also established sound corporate controls and governance systems ensuring the efficiency of our operations.

In addition, we have a close partnership with Morgan Stanley Private Equity Asia (MSPEA), a leading private equity firm in Asia, which has worked closely together with us to further strengthen these procedures and systems. We and MSPEA share a common strategic goal for the Company and are working closely together to solidify our leading market position.

We believe that we are well-positioned to maintain our leadership by promoting a culture of market-oriented innovation. However, we have put in place a performance-based compensation schedule, through which, we would engage, cultivate and maintain talents in the industry to support our future development.

Building on our technological edge, management experience, sound internal control system, strong accountability and environmental consideration, we are primed to achieve further growth and to take advantage of significant market opportunities in the future.

DEVELOPMENT STRATEGIES

Our objective is to continue to attain profitable growth by continuing our investment in developing new products and innovating new technology, improving the product mix in our product portfolio, maintaining existing long-term clients, expanding our production capacity, lowering production costs and expanding our domestic and global sales network.

In order to achieve this, we intend to:

Expand production capacity in the PRC to capitalize on the strong demand for our products

Given the expected continuing strong demand in the PRC for lubricant additives and specialty fluorochemical products, which are expected to increase respectively at a CAGR of 4.7% and 15.6% per year between 2013 and 2018 according to Frost & Sullivan, we intend to continue to add production capacity selectively to our business segments. To minimize any market disruption from this additional production capacity, these expansions have been well planned, and will be rolled out gradually according to our strict strategic plan. By 2015, we intend to increase production capacity of lubricant additives to 1,159,000 tonnes per year, including production capacity of 600,000 tonnes of Group II and III base oil per year and 200,000 tonnes of fluorinated lubricant additives per year to meet the anticipated increase in demand and broaden our product range in this business segment. In the PRC, we intend to continue our cautious expansion programme, and will add additional production capacity of lubricant additives products with strong market potential, such as Group II and III base oil, fluoride lubricating oil and various individual lubricant additive components. In our specialty fluorochemicals segment, our production capacity is expected to remain at 6,900 tonnes per year by 2015, while we expand our TFE monomer and TEI production lines, both of which are expected to commence commercial operations in 2017. In addition, in order to provide efficient services to local clients, we may establish lubricant additives and specialty fluorochemicals plants and/or R&D facilities overseas, particularly Southeast Asia or North America, where we expect to have growing market demand for our products.

Invest in R&D projects to expand our current product offering of high revenue generating products

We have a history of developing commercially successful product innovations. We intend to continue to develop next-generation, differentiating products to meet client and market preferences.

In the lubricant additives business segment, we intend to continue to expand our product range, focusing especially on moving our product offering from individual lubricant additive components to bespoke packages. In the specialty fluorochemicals business segment, we intend to expand production capacity and invest in R&D to offer a wider range of products developed by our R&D team based on market demand, particularly the demand in oil and gas, automotive and healthcare industries. We will also look to capitalize on R&D synergies between the lubricant additives segment and specialty fluorochemicals segment. As of December 31, 2013, we had 50 on-going R&D projects, with a focus on lubricant additives that could be utilized in high-speed locomotive engines and marine vessels, specialty fluorochemicals that could be applied to products for the oil and gas, consumer goods sectors, including agents used water-repellent and environment friendly paints, fluorochemical surfactants to improve performance of products used in oil extraction and transportation and agents that improve fuel efficiency. We believe we will be able to capture the anticipated growing market demand in relevant sectors and achieve sustainable development of our business. For details, please see the section headed “— Research and Development.”

Moreover, with our R&D capabilities dependent on our highly trained scientists, technicians and employees, we intend to implement optimal hiring practices and retention programs. As our customers demand a high degree of technical expertise from our employees, the Directors believe it is vital that we continue to invest in and develop this critical asset base. We intend to further leverage our advanced manufacturing technology, particularly our capacity to produce specialty fluorochemical products through our PFOA- and PFOS-free process, to work closely with other reputable domestic

and international manufacturers to develop new applications, to expand our market penetration and coverage and to enhance our leading position in the market of high-margin products.

Our objective is to support our customers' demands for technological expertise by attracting and retaining scientists with significant knowledge and experience in relevant industries and markets, and hiring, training and retaining highly skilled manufacturing staff to operate our sophisticated and advanced production processes. Accordingly, we have implemented a strategy of recognizing talent and performance with an attractive bonus and share compensation scheme which is intended to help align the interests of our management with those of our shareholders by linking remuneration with our performance. We also provide a safe, well-equipped and modern work environment, coupled with project management and special training programmes.

Increase penetration of overseas markets based on superior product offering, partnership with international players, and building of capacity, R&D centers and sales force in selected international markets

While continuing to invest in maintaining our market leadership in the PRC, we intend to expand into overseas markets by utilizing our efficient operating platform with the aim of benefiting from overseas regions.

We will seek to increase our market share in the lubricant additives business by offering major oil companies a broader portfolio of increasingly advanced and higher quality products, as well as customized and comprehensive packages. Additionally, where possible and strategically advantageous, we will seek to enter into supply partnerships with multinational customers. We will begin our concerted international strategy by focusing on customers active in Southeast Asia, the Middle East and Africa.

With respect to the specialty fluorochemicals business, we intend to continue to invest in and develop our market presence in the overseas markets through our appointment of an exclusive distributor of specialty fluorochemicals in areas such as North and Latin America and select European countries. We have already made sample sales of our specialty fluorochemicals through our exclusive distributor. Where appropriate, we may appoint additional distributors for other regions. We also intend to initiate direct sales with international customers in the U.S. and the E.U., taking into consideration our existing relationships.

Increase efficiencies and reduce costs in our existing operations to further increase margins through process innovations

We intend to continue to invest in our existing facilities in order to better leverage our existing manufacturing infrastructure and reduce our per unit manufacturing costs with a view to increasing our competitiveness. Investments in our existing manufacturing base will be focused on increasing the efficiency of operations while enhancing the quality and safety of products and operations, reflecting our culture of continuous improvement and innovation.

Process innovations are important to us and we intend to continue to invest in process technologies which offer the potential to further increase the efficiency of our production processes. These research projects will be spearheaded by our dedicated research center in Liaoning, and our goal is to continue these initiatives by leveraging our reputation for specialist technological support and innovation. We also intend to continue to maintain and develop interactive partnerships with our

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customers in order to gain insight into the market's product technology and formulation requirements. We also intend to reinforce our network within the scientific community at universities and research institutes.

Expand through targeted acquisitions, joint ventures and partnerships with the goal of improving our technology and supplementing the offerings of our business

In addition to our planned production capacity increases, we also intend to pursue actively value-added and incremental additions to our businesses, products, applications and technology. We may also establish joint ventures with reputable enterprises to explore into selected markets where appropriate. Any such additions would be for the purpose of increasing and diversifying our product portfolio through acquiring new technologies and leveraging our existing sales force and distribution system. Such initiatives would also enable us to extend our offering into adjacent markets and complementary product areas, where we can leverage our extensive expertise. We intend to follow a disciplined approach to acquisitions with a view towards ensuring future value creation and also intend to seek out partnerships and joint ventures as lower cost alternatives to acquisitions, with a particular focus on opportunities which offer the highest growth potential and will lead to successful global expansion and long-term strengthening of our market position. As of the Latest Practicable Date, we have not entered into any legally binding agreement in respect of any potential acquisition.

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During the Track Record Period, we generated revenue from our two business segments, focusing on manufacture and sales of fast growth and high revenue generating products where we have a technological advantage. The following table sets forth details of revenue derived from each business segment in the Track Record Period.

	For the year ended December 31,					
	2011		2012		2013	
	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentage)</i>					
Revenue						
Lubricant Additives Segment	1,817,006	54.1	1,774,503	42.3	2,063,112	41.0
Specialty Fluorochemicals Segment	1,542,362	45.9	2,418,050	57.7	2,970,683	59.0
<i>Downstream Specialty fluorochemical products</i>	289,815	8.6	1,343,050	32.1	1,702,353	33.8
<i>Telomers and specialty fluorochemical intermediates</i>	1,101,726	32.8	994,591	23.7	1,198,412	23.8
<i>Others⁽¹⁾</i>	150,821	4.5	80,409	1.9	69,918	1.4
Total	<u>3,359,368</u>	<u>100.0</u>	<u>4,192,553</u>	<u>100.0</u>	<u>5,033,795</u>	<u>100.0</u>

Note:

(1) Mainly include HFE and PTFE. For a description of our specialty fluorochemical products, please see the section headed “— Specialty Fluorochemicals Segment — Our Specialty Fluorochemical Products.”

Lubricant Additives Segment

Under this business segment, we produce a broad range of lubricant additives used by lubricant manufacturers to produce downstream industrial or commercial lubricant oil products used in a broad variety of industries, including, engine oils of automobiles, ships and turbines; and gear oil, anti-wear hydraulic oil, cutting oil and hydraulic grease for industrial equipment used in metal processing

industry. Each individual lubricant additive component generally only addresses one or a few aspects of performances that are critical to the performance of lubricants and functional fluids. We categorize our individual lubricant additive components based on functionality as detergent products, ashless dispersant products, corrosion inhibitors, extreme pressure anti-wear additives, antioxidant products and pour point depressants. We produce lubricant additive packages through blending one or more individual lubricant additive components with different types of base oil to optimize the performance of the package and achieve the specific requirements.

According to Frost & Sullivan, in 2013, we were the largest lubricant additives producer headquartered in the PRC and the sixth largest lubricant additives producer in the world, in terms of revenue. We have been pioneers in many areas of the lubricant additives industry in China based on our strong R&D capacity and manufacturing capability. For instance, we are the only company headquartered in the PRC with the ability to produce long-chain linear alkyl benzene sulphonic acid, which is an important raw material for high-grade lubricant additives due to its superior chemical features as it can enhance the lubricant additives' acid neutralizing ability, detergency and dispersion effects and anti-rust performance. In addition, long-chain linear alkyl benzene sulphonic acid also possesses good thermal stability, oil solubility, anti-foam and water-repellent properties, all of which are important for enhancing the performance of lubricant additives.

Production Procedures

We produce different lubricant additive components from various raw materials based on our proprietary processes which consist of a series of chemical reactions, where we control the process by adjusting the amount of different types of raw material and catalysts to be added and the timing and temperature for the reaction to take place. We produce lubricant additive packages by adding selected individual lubricant additive components and catalysts into base oil for blending according to specific formula, which determine the exact amount and sequence for relevant components and raw materials to be added, the type of base oil to be used and the specific temperature, speed and period of time to conduct the blending procedure. Subject to the amount of output and complexity of packages to be produced, it usually takes around one hour to three hours for the blending process to be completed.

Our Lubricant Additive Products

Our lubricant additives are used in a broad variety of industries to reduce friction between moving surfaces and are critical to enhancing the performance of lubricants and functional fluids. For more details of the applications of lubricant additives, please see the section headed "Industry Overview." Because each additive component can only address one or a few aspects of performances, lubricant producers typically blend one or more lubricant additives with different types of base oil according to specific formula to produce lubricant additive packages. These lubricant additive packages take advantage of the interaction among different products to optimize the performance of the packages and achieve the specific requirements.

Our lubricant additives find application in lubricants used in a broad range of industries, including, engine oils of automobiles, ships and turbines; and gear oil, anti-wear hydraulic oil, cutting oil and hydraulic grease for industrial equipment used in metal processing industry. In addition, certain antioxidant products, such as T501, could be used for food and other industrial purposes. Our lubricant additive packages are used to produce lubricants for automobiles, ships and turbines.

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The table below sets forth details of selected lubricant additives.

Type	Products Series ⁽¹⁾	Functionality
<i>Individual Lubricant additive components</i>		
Detergent products	T104A, T106A, T106B, T106D, T106Z, T107, T115B, T115C	Detergent products are used in lubricant oils to (i) neutralize the acidic by-products of the combustion and the lubricant oxidation and (ii) remove the particles and contaminants, which have limited solubility in oil. Detergents minimize the formation of deposits on the engine and transmission parts.
Ashless dispersant products	T151A, T154A-B, T155A, T161A-B, T164A, T165A	Ashless dispersant products are used to suspend contaminants that have low oil solubility in lubricants and keep them dissolved in oil. As a result, the contaminants are prevented from coagulating and removed when the lubricant is changed. Our ashless dispersant products do not contain chlorine and as a result have better capability to disperse sludge and soot and prevent the formation of engine sludge, coke and film compared with products produced via a chlorination process.
Corrosion inhibitors	T202 – T209	Oxidation/corrosion inhibitors coat the surfaces of the metal parts and form a resilient protective film, which protects metal surfaces from oxidation or corrosion of the products being lubricated.
Extreme pressure anti-wear additives	T330, T340	Extreme pressure anti-wear additives form extremely durable protective films by thermo-chemically reacting with the metal surfaces of material being lubricant, which keep metal surfaces from direct contact at extreme temperature or under mechanical pressure and as a result reduce the wearing process.
Antioxidant products	T501, T502, T502A, T504, T508, T557, T558, BHT	Our antioxidant products are designed to decelerate the degradation of the base lubricant from oxidization, which can be used in various industries, such as the food, rubber and metal industries that use antioxidant products to treat industrial materials.
Pour point depressants	T809A-B	Pour point depressants permit oil to flow at low temperatures by preventing crystallization of wax at low temperatures in petroleum based fluids. Pour point depressants are mainly purchased by oil and gas companies to ensure safe and efficient transportation of oil products.

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Type	Products Series ⁽¹⁾	Functionality
<i>Lubricant additive packages</i>		
Engine oil additive package	TH3056, TH3058, TH3152, TH3156, TH3159, TH3256, TH3257, TH3259, TH3328	Engine oil additive package is primarily used in gasoline or diesel fueled engine oil, which is designed to provide comprehensive protection to all types of engines in a variety of operating environments.
Gear oil additive package	TH4201, TH4209	There are two major groups of gear oil additive packages, namely, automobile gear oil additive packages and industrial gear oil additive packages. Automobile gear oil additive packages are designed to provide performance like friction reduction, heat removal and extreme pressure anti-wear to prevent scoring, scuffing and other types of distress that can result in equipment failure and downtime. Industrial gear oil additive packages are designed to provide extreme pressure performance, rust and oxidation resistance.
Industrial lubricant additives	TH5003, TH5022, TH5033, TH5035, TH6002, TH6003, TH6022, TH6042, TH6061, TH6081	Depending on the components used to produce industrial lubricant additives, they could impart additional functionalities to enhance the performance of different industrial equipment and machinery.

Note:

(1) We refer to various lubricant additives as “Txxx”, “Txxxx” or “THxxxx”, symbolizing different types of lubricant additives based on specific components of each product.

During the Track Record Period, we produced lubricant additives at our facilities located at Bawang Village and Xi Shan in Liaoning Province. As of December 31, 2013, we were capable of producing 93 lubricant additives, including 59 types of individual lubricant additive components and 34 lubricant additive packages. In addition, as of the Latest Practicable Date, our in-house R&D department was in the process of developing 29 new lubricant additive products and six types of fluorinated lubricant additives.

Capitalizing on our strong R&D capacity and extensive experience in lubricant additives market, we managed to expand our lubricant additives business segment steadily during the Track Record Period. We captured market opportunities as a result of evolving regulatory requirements and increasing customer demand for more environment friendly and cost efficient lubricants. Please also see the subsections headed “— Sales, Marketing and Customers” and “— Research and Development.”

For the years ended December 31, 2011, 2012 and 2013, revenue from lubricant additives segment amounted to RMB1,817.0 million, RMB1,774.5 million and RMB2,063.1 million, respectively, and sales volume of our lubricant additives amounted to 110,757 tonnes, 108,660 tonnes and 128,233 tonnes, respectively, for the same periods. During the Track Record Period, the average selling price of our lubricant additives amounted to RMB16,405 per tonne, RMB16,331 per tonne and RMB16,089 per tonne, respectively.

In recent years, to meet increasing market demand for our lubricant additives, we have further expanded our production capacity accordingly. For details on our current production capacity expansion projects, please see the subsection headed “— Manufacturing — Production Capacity Expansion.”

Specialty Fluorochemicals Segment

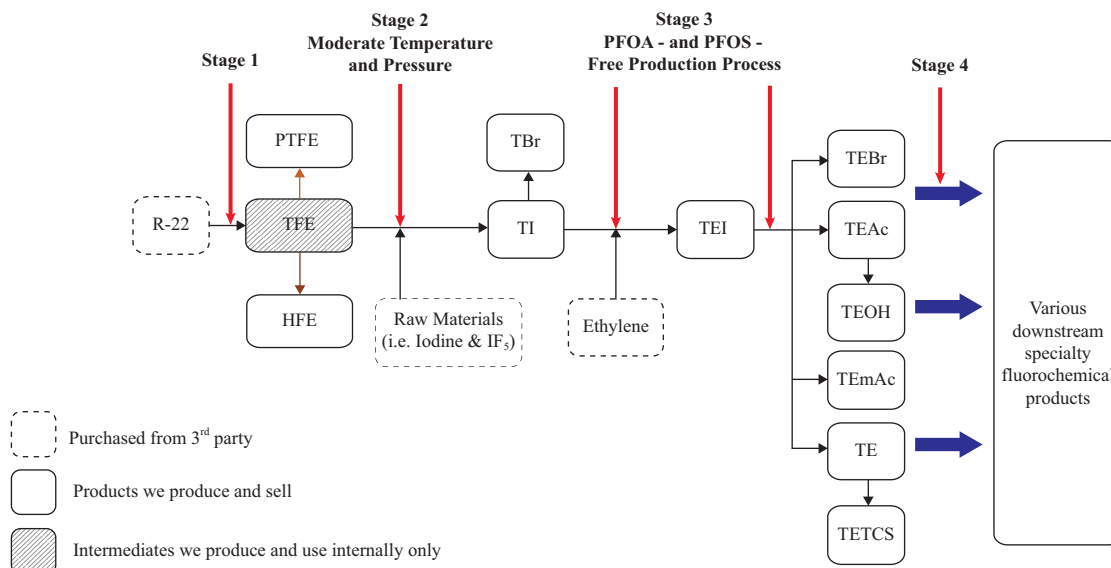
Under this business segment, we produce and sell a broad range of specialty fluorochemicals for customers to improve performance of a vast number of products. During the Track Record, we produced and sold a broad range of specialty fluorochemicals, which we categorize as (i) downstream specialty fluorochemical products, such as different types of surface protectant and fluorochemical surfactants; (ii) telomers and specialty fluorochemical intermediates, such as TI, TEI, TEAc and TEOH, which we can further convert into higher-end down-stream specialty fluorochemicals; and (iii) a small number of other products, including HFE and PTFE. For a further description of our specialty fluorochemical products, please see the subsection headed “— Our Specialty Fluorochemical Products.”

According to Frost & Sullivan, in 2013, we are the largest manufacturer of high revenue generating specialty fluorochemicals headquartered in the PRC in terms of revenue. According to Frost & Sullivan, we have developed the expertise in telomerization technology to produce specialty fluorochemical products in a production process that is free from PFOA and PFOS, environmentally hazardous contaminants. According to Frost & Sullivan, we are the only company worldwide to produce specialty fluorochemical products under moderate temperature and pressure via the telomerization method.

Production Procedures

We produce specialty fluorochemical products at our facilities at Bawang Village and Fuxin in Liaoning Province. We design the equipment used for our specialty fluorochemical products and rely on our in-house experts and technicians to fine-tune and maintain the equipment, which allow us to produce in a safer, more environment friendly and cost-efficient way. In addition, we rely on our sales team and in-house experts to develop specialty fluorochemical products with requested characteristics based on the customers’ need. For details, please see the subsection headed “— Research and Development” and “— Sales, Marketing and Customers.”

The diagram below illustrates our simplified fluorinated chain production processes used to produce a variety of our specialty fluorochemical products:



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- **Stage One.** Stage one is the production of TFE from R-22 at Fuxin Facilities. We heat R-22 purchased from third party suppliers to a temperature between 500°C and 800°C to produce TFE monomers. During the Track Record Period, we primarily use TFE for our internal production use. Please also see the section headed “Industry Overview” and “—Raw Materials and Suppliers.”
- **Stage Two.** Stage two involves the moderate temperature and pressure telomerization using TFE as the starting material for the production of a series of TI not an even number of carbon atoms in the chemical chain (i.e., C-4, C-6 C-8 and etc.) At this stage, we may also utilize excess TFE to produce PTFE and HFE, which we sell to customers for their further process into different end products. This allows for optimal economies of scale and reduces costs per unit produced. It generally takes around 0.2 to 1.0 hour to complete stage two, subject to the amount of TFE to be processed. Please also see the subsection headed “—Telomerization process” below.
- **Stage Three.** We further convert TI with different chain length of carbon atoms, through PFOA- and PFOS-free production process, into TEI, which can be further processed into TEAc, TEOH, TE and other downstream products, which we either sell to clients for their further production of end-products or continue processing at our plants for production of end-products by ourselves, based on market demand and for better profitability. Please also see the subsection headed “—PFOA- and PFOS-free production process” below.
- **Stage Four.** At this stage, we produce different end-products out of various precursors for further sales.

Telomerization process

Stage two is our proprietary telomerization process, which is performed using a catalyst through special production processes and utilizing the equipment designed by us, which results in lowered temperature and pressure, and increased yields of the desired TI products with desired even number of carbon atoms in the chemical chain. As a result, compared to the traditional process, we are able to produce TI in a safer and more cost-efficient manner. According to Frost & Sullivan, we are the only company worldwide that is able to carry out this telomerization process at moderate temperature and pressure.

In addition, another key advantage of our telomerization process is the utilization of a flexible production and separation technology in which the same production line can be used to produce (i) individual TI with desired number of carbon atoms, such as C-6 or C-8 only, which can be sold to other specialty fluorochemicals producers as individual intermediates for their production based on desired performance of the end-products or (ii) TI with a mixture of carbon atoms that can be used in the preparation of other downstream products.

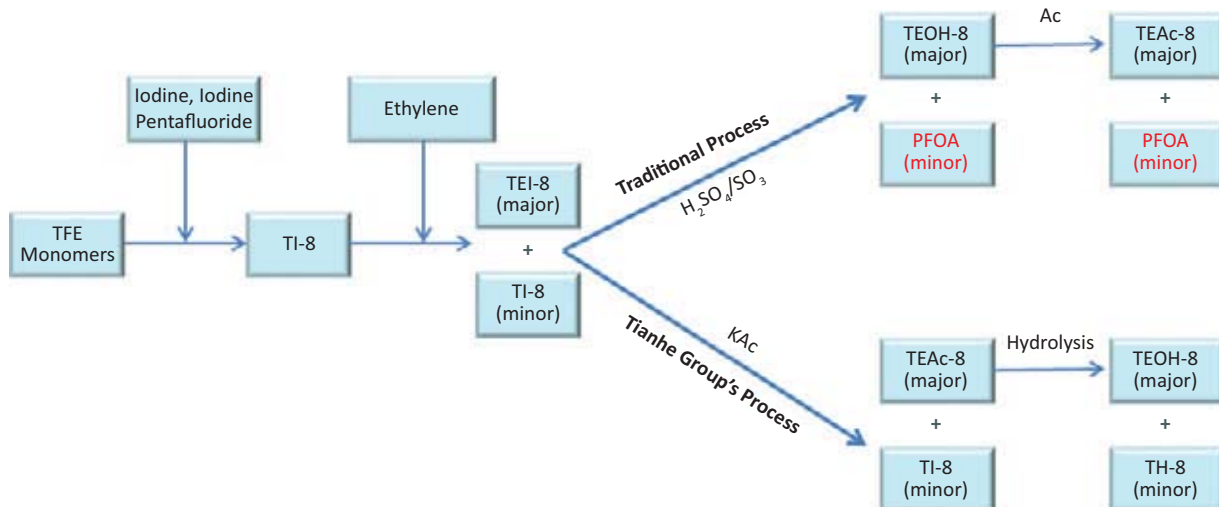
PFOA- and PFOS-free production process

At stage three, we implement our PFOA- and PFOS-free production process, which is environmentally friendly and complies with international environment standards as well as increasingly stringent PRC environment regulations. We achieved this through preventing the use of oleum in the process by converting TEI directly to TEAc, which could be further hydrolyzed to produce TEOH, when needed. As a result, no PFOA or PFOS is formed by this route.

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PFOA and PFOS are hazardous synthetic chemicals that do not occur naturally in the environment. In the event people are exposed to PFOA or PFOS, they remain in the blood stream for an extended duration. As a result, governments of different countries, including China, have implemented regulations that require stain-protectant coating manufacturers to change their manufacturing technology to produce PFOA- and PFOS-free products. For details about regulation of PFOA and PFOS in China, please see the section headed “Regulatory Overview.”

The table below illustrates the major difference between the traditional production processes for TEAc through TEOH and our PFOA -free production process for TEOH through TEAc.



Source: Frost & Sullivan

Because our production process eliminated the sulphonation steps, our products are also PFOS-free.

Capitalizing on our capacity to produce specialty fluorochemicals through PFOA-and PFOS-free manufacturing process, the sales of our specialty fluorochemicals increased during the Track Record Period and expect to continue to increase.

Our Specialty Fluorochemical Products

The table below sets forth details of our key specialty fluorochemical products during the Track Record Period.

Downstream specialty fluorochemical products

As of December 31, 2013, we produced and marketed 11 downstream specialty fluorochemical products that could be utilized by our customers to enhance performance of their products in a broad range of sectors, mainly include, coatings, oil and gas, textiles, healthcare, crop protection, electronics and automotive. During the Track Record Period, our main downstream specialty fluorochemical products include following categories:

SP

- ***Textile finishing agents.*** We produce different types of PFOA- and PFOS-free textile finishing agents, which when applied to fabrics, cover the surface of the fabric to repel

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water, oil and other liquids from contaminating the surface of the fabric. In particular, unlike fabrics treated with traditional coating materials, fabrics treated with perfluoroalkyl waterproof and anti-oil agents have good air and water vapor permeability and, therefore, increase comfort and look bright, colorful and wrinkle free.

- **Leather treatment agents.** Our leather treatment agents could be applied to cover the surface of natural or artificial leather products to repel water, oil and other liquids from the surface of these products.

Anti-mar/anti-reflective coatings

We produce different types of anti-mar/anti-reflective coatings that could be applied to surface of eye-glasses, optical lenses, touch screen of cell phones or personal computers, security equipment with fingerprint reader or other glass products to repel water, oil and other liquids from contaminating the surface of relevant products.

FS (fluorinated surfactants)

FS could be further processed into agents used to improve performance of different products in various sectors. Due to our capacity to produce PFOA- and PFOS-free FS products, which is more environmentally friendly compared to other FS products manufactured through traditional way, we expect market demand for our FS products to increase substantially.

- **Wetting agent.** Reduces the surface tension of a liquid, causing the liquid to spread across or penetrate more easily the surface of a solid. Wetting agents are widely used to improve performance of different types of inks or paints used in manufacturing, publishing or home furniture industries and pharmaceutical products such as medicines to be taken orally or through injection.
- **Spreading agent.** Can be added to a solution to promote quick and even distribution of the solution over the target. Spreading agents are widely used to improve performance of crop protection, healthcare, paints and coatings for different industries.
- **Foaming agent.** Facilitates formation of foam, which could be used to improve the performance of fire fight foams or applied to various construction or package materials.
- **Anti-stick agent.** Can be applied to surfaces of different material making such surfaces non-adhesive. Anti-stick agents are widely used in various industries, including the food packaging industry, packaging, electronics, automotive and aircraft manufacturing.
- **Stain control agent.** Can be applied to surfaces of fabrics or other materials to repel water, oil and other liquids from contaminating the surface. Stain control agents are widely used in industries like tiles, electronics, coatings, automotive, healthcare, crop protection, packaging, and aircraft manufacturing.

Telomers and specialty fluorochemical intermediates

During the Track Record Period, we produced and sold various fluoro telomers and fluoro monomers products pursuant to customer's purchase order and/or that we could not utilize for production of downstream specialty fluorochemical products. Our strategy is to produce these intermediary products in order to keep our manufacturing facilities at high utilization, to utilize what we need for our down stream, high value products while selling the reminder portion to customers.

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TI (telomer iodide)

TI is an intermediate product which can react with ethylene to produce other downstream specialty fluorochemicals, such as TEI and TEOH. During the Track Record Period, we sold TI to manufacturers who use them as intermediates for manufacturing of different downstream products or trading companies.

TEI (telomer ethyl iodide)

TEI produced from TI and ethylene mixed with certain types of catalyst. We produce a variety of mixed carbon TEI products with various carbon numbers and narrow fractions.

We sell TEI products to clients who use them as intermediates for manufacturing of different products, including (i) paints with the performance of enhancing wetting and reduction of cracks; (ii) fluorine coated pharmaceutical products; (iii) crop protection products such as fungicides, herbicides and insecticides; (iv) fluorinated wax or ski wax for polishing of automobile, boat, aircraft, ski or snowboard surfaces; and (v) fire fighting foams.

TEOH (Perfluoroalkyl ethyl alcohols)

TEOH is produced based on TEI. We have the technology to use five different chemical processes to produce TEOH. The multiple processes allow us to vary distributions of finished products to avoid potential raw material shortages. The primary use for TEOH products is as raw materials in the production of pharmaceuticals, solid lubricants, crop protection products, coatings and perfluoroalkyl acrylate. There are many potential uses of TEOH and development of new products is a key focus for our R&D team.

Fluoro monomers and other products

We also produce and sell different series of monomers and other products that can be used for production of other down-stream fluorochemical products, mainly include, TE, TEAc, TEmAc, TBr, TEBr and TETCS.

Others

During the Track Record Period, we utilized excess output of TFE to produce PTFE and HFE (hydrofluoroethers), which we sold to customers for their further process into different end products. PTFE are mainly used by specialty fluorochemicals manufacturers to produce PTFE products to treat a broad range of products in various industries, including pots and other cooking equipment to provide anti-stick performance, pipes, pumps and other products with strong anti-corruption or heat-resistance performance and various wrapping, insulating and air-tight materials utilized in electronics, medical, automobile, furniture and manufacturing sector. HFE are used as ultra-high purity cleaning agents for semiconductors, optical equipment and aircraft manufacturing.

During the Track Record Period, we produced specialty fluorochemical products at our facilities located at Bawang Village and Fuxin in Liaoning Province. As of December 31, 2013, we were capable of producing over 160 types of specialty fluorochemicals. In addition, as of the Latest Practicable Date, our in-house R&D department were developing 15 types of new specialty fluorochemical products. For details, please see the section headed “— Research and Development.”

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In recent years, we experienced increasing market demand for our specialty fluorochemical products, particularly our (i) TI and TEI products containing C-8 fluorinated chains as a result of our capacity to manufacture such products through PFOA- and PFOS-free process and (ii) TI and TEI products containing C-6 fluorinated chains, both of which could help preventing the final products from degrade in the environment to PFOA. We have further expanded our production capacity accordingly. For details on our current production capacity expansion projects, please see the section headed “— Manufacturing — Production Capacity Expansion.”

The table below sets forth details of our specialty fluorochemical products for the years indicated.

	For the year ended December 31,								
	2011			2012			2013		
	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price
	<i>(RMB in thousands)</i>	<i>(tonnes)</i>	<i>(RMB in thousands/tonne)</i>	<i>(RMB in thousands)</i>	<i>(tonnes)</i>	<i>(RMB in thousands/tonne)</i>	<i>(RMB in thousands)</i>	<i>(tonnes)</i>	<i>(RMB in thousands/tonne)</i>
Downstream specialty fluorochemical products	289,815	15	19,987.2	1,343,050	64	21,034.5	1,702,353	88	19,294.5
Telomers and specialty fluorochemical intermediates	1,101,726	908	1,213.2	994,591	914	1,088.4	1,198,412	1,399	856.4
Others	150,821	1,428	105.6	80,409	1,278	62.9	69,918	1,571	44.5
Total	<u>1,542,362</u>	—		<u>2,418,050</u>	—		<u>2,970,683</u>	—	

RESEARCH AND DEVELOPMENT

We believe that R&D is critical to our strategy to become a leader in product innovation in the specialty chemicals industry. We are committed to develop new products and processes, as well as improve existing products and processes, focusing on identifying the most cost-efficient way to create the packages delivering performances that meet our customers’ expectations. Our R&D focuses on process know-how and leverages the expertise of our highly skilled team of scientists.

Research and Development Achievements

Our overall R&D strategy seeks to (i) develop individual lubricant additive components and packages production technologies to meet the market demand in China and overseas; and (ii) develop and improve technically advanced processes for high revenue generating fluorochemical downstream products, in particular, downstream specialty fluorochemical products. We also invest in analyzing and anticipating customers’ preferences and market trends in the specialty chemicals industry, and we adjust our overall R&D plan and/or specific R&D project accordingly.

For our lubricant additives segment, we have successfully developed many products with attributes requested by our customers, and through this interaction we managed to enhance our relationship with these customers and enter into new markets. For specialty fluorochemicals segment, we have introduced 11 downstream specialty fluorochemical products into commercial production

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through our in-house R&D efforts during the Track Record Period. We introduced four of these products in 2011 and the remaining seven in 2013. In addition, in response to our customers' requirements, we were able to improve the performance of our downstream specialty fluorochemical products and develop alternative downstream specialty fluorochemical products with compatible functions, resulting in increased sales of high revenue generating products.

We continue to seek to develop or improve products and processes to meet customer demands, to improve the performance of certain products. In recent years, in responding to market demand for high-end engine oil for marine ships, in particular, fluorinated lubricant additives, we have collaborated our R&D capacities in both lubricant additives and specialty fluorochemicals segments to develop these products. The table below sets forth details of our on-going R&D projects as of the Latest Practicable Date. Please also see the sections headed “— Manufacturing — Production Capacity Expansion” and “Future Plans and Use of Proceeds.”

	Description	Status as of Latest Practicable Date		
		Research phase	Development phase	Industrialization phase
		<i>(number)</i>		
Lubricant additives	14 individual lubricant additive components targeting high-end and high revenue generating lubricant additives that can be utilized in engines of high-speed locomotives and advanced marine ships.	7	6	1
	15 lubricant additive packages where the applied industries include automobiles, ships and manufacturing.	5	7	3
	six types of fluorinated lubricant additives that could be applied to advanced products in various industries including oil and gas, mechanic, medication and surfactant.	2	4	—
Specialty fluorinated products	15 types of downstream specialty fluorochemical products, focusing on products that are more environmental friendly and with more stable performance, including (i) agents used in water-repellent and environment friendly paints, that could reduce emission of hazardous elements; (ii) fluorochemical surfactants to improve performance of products which could be used in oil extraction and transportation industry to allow oil flow smoothly under extremely low temperature; and (iii) agents to improve efficiency of fuel consumptions through allowing relevant engines operate in a more stringent environment in terms of operating hours, temperature or emission requirement.	5	6	4

Research and Development Procedures

Our R&D process consists of research, development and industrialization phases.

- **Research phase.** Once we receive initial product proposals from our R&D team, we conduct laboratory tests to understand the properties of the materials, and research and small-scale pilot production to improve the chemical process. This phase generally takes

place in our own. It usually takes around one year to complete research phase depending on the complexity of the project.

At the end of this phase, our Board of Directors review the test results and, in the event the test results are satisfactory, approve the further development of the project.

- **Development phase.** During this phase, medium-scale pilot production is carried out. Our R&D team examines and adjusts production process to ensure that chemicals can be mass produced economically at the levels which consistently meet our quality requirements. Our work under this phase usually takes place in our own laboratories, except for certain specialty fluorochemicals which we developed in the production plants. Development phase generally take six months to one year to complete. We also sold small quantities of products manufactured during the development phase when there is market demand.
- **Industrialization phase.** During this phase, products and process are tested to be able to commercially manufactured in large quantities for sale. We may make small changes in chemicals or processes to improve the production efficiency and/or accommodate specific customer requirements.

After certain commercial production process get confirmed and standardized, we may initiate new update R&D project to further improve it based on our overall R&D plan and market demand.

Research and Development Team and Facilities

As of December 31, 2013, our R&D team consisted of 105 R&D staff, including 14 scientists and 91 research staff, led by Mr. Wei Qi, our Chairman and head of the Tianhe Research Center.

Our R&D team can be divided into (i) the lubricant additives research team, which consists of seven scientists and 38 research staff and is led by our CEO of lubricant additives segment, who has over 25 years of experience in the lubricants industry, (ii) the specialty fluorochemical research team, which five scientists and 41 research staff and is led by our Chief Technical Officer for specialty fluorochemicals, who has over 20 years of experience in specialty fluorochemicals industry; and (iii) the lubricant base oil and fluoride lubricating oil team, which consist of two scientists and 12 research staff and also led by our Chief Technical Officer for specialty fluorochemicals. Please also see the section headed is “Directors and Senior Management.”

We have a dedicated R&D facility at each production plant to focus on various stages of product testing and development. The Jinzhou Technology Center, our main R&D center, is located in Jinzhou, Liaoning Province, which focuses on improving and expanding our product portfolio as well as optimizing existing production processes. We intend to maintain R&D facilities at the production plants so that final large-scale testing and development can be done without incurring additional costs associated with transporting testing materials between the production plants and the R&D center. Over the past ten years, we have made significant capital investment to improve our R&D capability in order to establish ourselves as a market leader in chemical production technologies and to comply with the highest international environmental and safety standards. In addition, we intend to establish R&D centers overseas, such as Southeast Asia or North America, and to recruit scientists to improve our R&D capabilities. We believe that these measures could help us to capitalize not only on the pool of highly qualified personnel available in these countries, but also to better serve the customers located in these regions. We intend to fund the development of these R&D centers with a combination of our working capital, bank borrowings and proceeds from the Global Offering.

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In 2011, 2012 and 2013, our expenses in relation to our R&D activities amounted to RMB8.3 million, RMB7.0 million and RMB10.6 million, respectively, which primarily include salaries for our key R&D staff and procurement costs for materials used in our laboratory for experiments.

In addition, according to our accounting policy, we capitalize R&D cost in respect of certain products as intangible assets. Upon completion of relevant R&D activities and commencement of commercial production of such products, the capitalized amount will be amortized over the estimated economic life of such products and accounted into cost and expense for the relevant years or periods. As of December 31, 2013, the net carrying value of our intangible assets amounted to RMB246.7 million.

MANUFACTURING

Production Bases

As of the Latest Practicable Date, we had three production facilities in operation in Liaoning Province with an aggregate designed production capacity of 199,000 tonnes of lubricant additives and 6,900 tonnes of specialty fluorochemicals per year.

The table below sets forth details of our plants as of December 31, 2013.

Operating Subsidiary	Location of Manufacturing Facilities	Aggregate GFA (square meters)	Main Products
Jinzhou DPF-TH	Bawang Village	715,654	Lubricant additives and specialty fluorochemicals
	Xi Shan	96,601	Lubricant additives
FHT	Fuxin	120,402	Specialty fluorochemicals

Utilization Rate

The table below sets forth an overview of our production facilities and our overall capacity utilization rate.

	As of and for the year ended December 31,		
	2011	2012	2013
	<i>(tonnes, except for percentage)</i>		
Lubricant Additives			
Bawang Village (12 production lines) and Xi Shan (three production lines)			
Designed Production capacity ⁽¹⁾	138,000	138,000	199,000
Production volume	115,355	123,053	141,532
Utilization rate ⁽²⁾	83.6%	89.2%	86.7%
Specialty Fluorochemicals			
Bawang Village (four production lines) and Fuxin (five production lines)			
Designed Production capacity ⁽¹⁾	3,700	3,700	6,900
Production volume	2,387	2,549	3,334
Utilization rate ⁽²⁾	69.2%	68.9%	81.3%

Notes:

(1) Designed production capacity was calculated based on 300 working days per year with 24 working hours per day.

(2) Utilization rate is derived according to the following formula: actual output or processed volume for the relevant year or period divided by actual designed output capacity or actual processing capacity for the relevant year or period on an annualized basis.

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During the Track Record Period, our utilization rate of lubricant additives facilities remained stable, while our utilization rate of specialty fluorochemicals facilities increased from 83.6% in 2011 to 86.7% in 2013, primarily as a result of the expansion of this business segment in response to growing market demand for our products.

We invested in production expansion through establishing new production facilities or upgrading existing facilities. The increase in our designed production capacity of lubricant additives in 2013 was mainly caused by the newly installed facilities for production of lubricant additive packages that commenced operation in July 2013 and an upgrade and expansion to our existing production facility of lubricant additives, including extreme pressure anti-wear additives, which commenced operations in November 2013.

The increase in our designed production capacity of our specialty fluorochemical products was due to a new production line for fluoro monomers, such as TI and TEI, which commenced operations in November 2013 and an upgrade and expansion to our existing production facility of HFE that was completed at the end of 2013.

Production Capacity Expansion

During the Track Record Period, we undertook production construction or upgrade projects according to market demand for our products. Depending on the complexity and the size of the production expansion projects, we believe that our production expansion projects will generally start to generate profit within one month after they commence commercial production, while the investment payback period will generally range between six months and twenty-four months. This could be materially adversely affected by various factors beyond our control, including changes in market demand to relevant products and general economic conditions. Please also see the section headed “Risk Factors — Our future expansion plan and projects may not be adequately executed or completed within our anticipated time frame or budget.”

The table below set forth details of our key on-going production capacity expansion projects as of December 31, 2013.

Operating Subsidiary	Location / Facility	Products	Designed Capacity upon Completion <i>(thousand tonnes per year)</i>	Total expected investment <i>(RMB in millions)</i>	Incurred investments as of December 31, 2013	Expected completion time
<i>Lubricant additives segment</i>						
Jinzhou DPF-TH	Jinzhou Port ⁽¹⁾	Group II and III of base oil	600	2,950	2,102	Late 2014
		Fluoride lubricating oil	200	1,100	735	Late 2015
	Bawang Village	T154 (ashless dispersant product)	30	500	249	2016
		T106 (detergent product)	30	502	255	2015
Sino Asia Petrochemical	Qinzhou, Guangxi Province ⁽²⁾	Individual lubricant components and packages for industry and fuel oil	100	1,594	319	Late 2015
<i>Specialty Fluorochemicals Segment</i>						
FHT	Fuxin	TFE	5	900	270	Late 2016
		TI/TEI	2	540	180	Late 2016

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Notes:

- (1) It is located in Jinzhou port, Liaoning Province and has convenient railway, highway and sea bound transportations. We commenced construction of this facility in 2010. As of the Latest Practicable Date, this facility was still under construction.
- (2) It is located in Qinzhou city, Guangxi Autonomous Zone and has convenient railway, highway and sea bound transportations. We believe Qinzhou Facility will improve our capacity to make timely response to growing market demand for lubricant products in Southwest China, in particular, the Pearl River Delta, as well as demand from Southeast Asian countries. We commenced construction of this facility in 2010. As of the Latest Practicable Date, this facility was still under construction.

We intend to fund these projects with a combination of our working capital, bank borrowings and proceeds from the Global Offering. For a description of our intended application of proceeds from the Global Offering, please see the section headed “Future Plans and Use of Proceeds.”

Equipment

We purchase manufacturing equipment from major suppliers from China. The key equipment we use for our production are different types of reaction vessels and chemical containers. To meet the requirement of production processes for our products, we rely on our in-house experts to design relevant equipment, who will also work together with equipment suppliers to manufacture, assemble and install such equipment according to the installation plan developed by our in-house R&D team to realize our designed production processes. We generally fine-tune the purchased equipment during the test-running period to ensure the equipment could meet our requirement in relation to production efficiency and product quality. We also rely on our in-house experts and technicians to provide on-site maintenance to our equipment. As of the Latest Practicable Date, we owned all the key manufacturing equipment utilized in our production and did not have plan for material replacement of key equipment.

We generally purchase manufacturing equipment from domestic manufacturers in China. We select suppliers of equipment through bidding process and review our suppliers from time to time. During the Track Record Period, we have not experienced any material delay in sourcing, delivery or installation of our equipment.

SALES, MARKETING AND CUSTOMERS

Overview

During the Track Record Period, we derived substantially all of our revenue from the sale of products in the PRC. For the year ended December 31, 2011, 2012 and 2013, we derived 98.0%, 97.6% and 95.1% of our revenue from the sale of products to customers based in the PRC, respectively. We also sold our products to various overseas countries and regions, including United States, Japan, the Middle East, Europe and Southeast Asia. In addition, a large portion of our products sold to trading companies were resold to overseas markets.

Our customers typically adopt rigorous evaluation and verification procedures to select qualified suppliers. These customers often conduct routine checks on approved suppliers and any failure could lead to suspension or termination of such qualification. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any rejection of or material delay in obtaining or renewing approval or qualification from our customers to supply our products or services. For a description of the risks, please see the section headed “Risk Factors — We may fail to renew our certification or qualification as a supplier of our customers.”

Marketing and Promotion

Marketing and promotion is important for our continued success and sustainable development. Our key marketing strategy is to promote our quality products, offer competitive pricing and provide quality after-sale services. We focus on promoting sales of our products on our website, through attending chemical industry conferences worldwide, and in person meetings with existing and potential customers.

We have a dedicated sales and marketing team, which comprised of 20 members as of December 31, 2013, among whom, 12 members were responsible for sales of lubricant additives and the remaining eight members were in charge of sales of specialty fluorochemical products. Our sales team is responsible for introducing our products and the technical specifications and characteristics to customers as well as collecting customers' requests and feedback on our products, according to which, we could develop new products or improve performance of existing products to meet customers' specifications. As a result, we request our sales manager and assistant managers to have adequate knowledge and understanding of the production processes, chemical ingredients and technical specifications and characteristics of all of our lubricant additives and specialty fluorochemical products in our portfolio.

We have also maintained a successful track record of after-sale services, including regular site visits and online real-time client service functions. We provide warranties for our products for a period of up to 30 days from the date of delivery. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any disputes with our customers or return of goods in relation to the quality of our products that had a material and adverse impact on our business.

Sales Channels

We generally sell our products directly through our own sales team to customers, including manufacturers of lubricant products and specialty fluorinated products, or to trading companies. Since 2013, we engaged a distributor to conduct sales on a consignment basis in North America, Latin America and select European countries as part of our strategy to market directly and improve our market recognition in these regions. The following table sets forth the main sales channels of our products under our two business segments.

- **Direct Sales.** During the Track Record Period, we primarily sold our products through our sales team to end users who utilize our products for further production or trading companies who resell such products.

Under the lubricant additives segment, we primarily sold our products to manufacturers of lubricant additives, including CNPC and Sinopec (and their respective subsidiaries and branches), who further utilize our products to manufacture different downstream lubricant products. In addition, we also sold our lubricant additives to different trading companies who resell them to their clients.

Under the specialty fluorochemicals segment, we sold our products to manufacturers of downstream specialty fluorochemicals, who use our products to manufacture other downstream products. We also sold our products to trading companies, including a subsidiary of one of the largest conglomerates in China, who resell our products to their clients.

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We generally enter into sales agreements valid for one year with our customers, including trading companies, such agreements are entered on an arm's length basis. The agreements include the pricing terms, specifications of product and delivery terms. We generally ask our customer to arrange delivery and give customers warranty terms of no more than 30 days from the date of delivery, when the risk of ownership get transferred to the relevant customers. We do not enter into any consignment arrangement with our customers, including trading companies. In addition, we do not set restrictions on geographic markets, minimum purchase amount or minimum price at which the trading companies could resell our products. In particular, we do not grant any trading companies the right to return obsolete inventories to us. In addition, we do not collect any royalty, initial set-up fees or other types of fees in recognizing trading companies as qualified customers. Furthermore, we do not require trading companies to resell our products in our names. We have no information about whom the trading companies resell our products to.

During the Track Record Period, the number of trading companies we engaged remained stable.

- **Sales through distributors.** In line with our marketing strategy, we engaged an exclusive distributor in September 2013 to sell our products in specialty fluorochemical the North America, Latin America and select European countries (the "**Designated Territory**") For the year ended December 31, 2013, we did not generate any revenue from sales of our products through the distributor. However, we have already made sample sales of our specialty fluorochemical products through the distributor. As of the Latest Practicable Date, we have not entered into any other distributor agreement.

The table below sets forth the key terms of our distribution agreement with the distributor. Please also see the section headed "Risk Factors — Risks Relating to Our Business — We have limited control over the practice and manner of sales of trading companies and our distributors."

Consignment Inventory	We will supply the distributor with the agreed amount of products that shall be managed by the distributor on consignment basis. Title to and ownership of all consignment inventory will remain with us until it is sold or consumed by the distributor, at which time, the distributor shall pay us accordingly. The distributor is also allowed to use consignment inventory as samples for marketing purpose, or to replace any returned goods from end-customers at our cost. Any consignment inventory that has not been consumed after 12 months may be returned to us at our cost. The distributor will audit the consignment inventory on a monthly basis and provide monthly reports.
Designated Territory	North America, Latin America and select European countries.
Pricing	The distributor will negotiate with us on a quarterly basis to determine the price to be charged for the products, based on

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various factors, including the prevailing market price of relevant products in China and the overseas markets.

The distributor is able to determine the price it sells to the end customers, which shall not be lower than the agreed floor price between the parties.

Product Sales Forecast	The distributor will provide a non-binding forecasted target quarterly volume for each product.
Distributor's Own Inventory	The distributor may, from time to time, purchase products from us on a non-consignment basis.
Termination	The agreement is valid for five years, with an option to renew for an additional five years. The agreement may be terminated by either party with a minimum of one year prior written notice.
Miscellaneous	We may, upon the distributor's application and at our discretion, provide loans and funds to the distributor for marketing, promotion, providing technical services to relevant customers, and providing funds for the distributor's operations. As of the Latest Practicable Date, we have not provided any loans to the distributor.

During the Track Record Period, we sold a majority of our lubricant additives to end users, including CNPC and Sinopec (and their respective subsidiaries). For the specialty fluorochemicals segment, we sold a majority of our specialty fluorochemical products to trading companies, including a subsidiary of one of the largest conglomerates in China. Sales to trading companies accounted for approximately 65% to 90% of our total sales in the specialty fluorochemicals segment during the Track Record Period.

Customers

Under our lubricant additives segment, we have established and maintained long standing relationships with two key customer groups for our lubricant additives, namely CNPC and Sinopec (and their respective subsidiaries) since our inception. For the year ended December 31, 2013, approximately 57.2% of our sales of lubricant additives were made to CNPC and Sinopec (and their respective subsidiaries). We also sold our lubricant additives to other petrochemical companies or lubricant manufacturers.

Under our specialty fluorochemicals segment, we sold our products to manufacturers of downstream specialty fluorochemicals. We also sold our products to trading companies, including a subsidiary of one of the largest conglomerates in China, who further sell our products to its clients. For the year ended December 31, 2013, approximately 40.2% of our sales of specialty fluorochemical products were made to the above mentioned subsidiary of one of the largest conglomerates in China.

During the Track Record Period, sales to our largest customer accounted for 32.2%, 27.3% and 29.5%, respectively, of the revenue. For the same periods, sales to our top five customers accounted for 87.0%, 86.3% and 79.4%, respectively, of the revenue. As of the Latest Practicable Date and during the Track Record Period, none of our Directors, their associates or any of our shareholders (which, to

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the knowledge of the Directors, own more than 5% of our share capital) held any interest in any of our five largest customers.

We are actively expanding our customer base in both China and overseas to mitigate the potential risks associated with concentration of customers. Accordingly, sales to our top five customers has decreased from 87.0% in 2011 to 79.4% in 2013. For instance, under our lubricant additives segment, besides CNPC and Sinopec, we have been recognized by Total, JX Nippon Oil & Energy and a multinational lubricant manufacturer in Europe as a qualified supplier for lubricant additives. As a result, our sales of lubricant additives to overseas customers increased steadily during the Track Record Period. For our specialty fluorochemicals segment, while maintaining our long-term relationship with a subsidiary of one of the largest conglomerates in China that we established at our inception, we have also established and maintained good relationships with various downstream specialty fluorochemicals developers and manufacturers, as well as other trading companies. In addition, we have engaged an exclusive distributor for sales of our specialty fluorochemicals in North America, Latin America and select European countries, through which we intend to develop and secure direct contacts with relevant overseas customers. In March 2014, we entered into a non-legally binding framework agreement with a well-known multinational fluorine chemical company in Japan to develop a strategic cooperation and supply partnership in the specialty fluorochemical business.

In addition, our sales of lubricant additives to CNPC and Sinopec (and their respective subsidiaries) were made to various branches or subsidiaries within these groups.

Moreover, with our highly flexible production platform, we also supply products to medium-sized customers who may have specific performance requests, relatively smaller volume and ad hoc orders that larger international companies are not able to serve, given the higher set up cost for the batch production of bespoke products. As a result, we are often the supplier that is able to provide quality products in relatively small-to-medium sized order batches, which helps us to capitalize on this position and achieve high margins with these customers.

Furthermore, we believe our relationship with major customers are strong and long-lasting because our customers generally have few incentives to replace us once we prove ourselves to be a reliable supplier of essential technical products. In particular, considering the stringent requirement for the quality of raw materials used for the manufacturing of the special chemical end-products, our customers generally do not procure and mix the same type of chemical products from different suppliers in the same manufacturing process. Moreover, we believe our relationship with our customers has strong synergies because we are able to develop products that cater to the different needs and requirements of our customers. All the above mentioned factors would in turn improve our customers' demand for our products. For a further description of our ability to forge close customer relationships, see “— Competitive Strengths — We have established strong relationships with major global and domestic PRC customers.”

Payment

We generally require customers to make payments prior to delivery of our products. For major customers under our lubricant additives segment, we may grant a credit period of 90 days. During the Track Record Period, our trade and other receivables increased in line with the increase in our revenue during the same period, except that our trade and bills receivables decreased from RMB72.0 million as of December 31, 2011 to RMB55.0 million as of December 31, 2012, mainly due to inclement weather

that caused delay in shipment of goods. For details, please see the section headed “ Financial Information — Certain items in the consolidated Balance Sheet — Trade and bills receivables.”

Pricing

Our sales of lubricant additives to key customers are generally based on legally binding annual framework agreements. For certain customers such as CNPC and Sinopec, we firstly enter into a non-legally binding annual framework agreements with them, which include key terms such as volume, approximate price range and product specifications and are agreed upon at the beginning of each year during meetings and/or calls between us and the customers. The agreed price range will be utilized as a guidance with adjustments made to it in accordance with the prevailing market prices. We then enter into legally binding framework agreements directly with their respective subsidiaries and/or branches on an annual basis. The key advantage of the annual framework agreements is that the annual sales volume sets forth in such agreements seldom changes, which in turn helps us set our annual production targets.

For our sales of specialty fluorochemical products, the price is set through negotiation with relevant customers, taking into account various factors, including, where available, prevailing market price of same or similar products, purchase volume, availability of alternative or competing products and our R&D costs, particularly for those products that we have developed or moderated based on customers’ requirements on special performance.

For medium and small customers in the PRC, sales contracts of our lubricant additives and specialty fluorochemical products are usually entered into on an ad hoc basis. With respect to customers outside of the PRC, we also enter into ad hoc sales contracts, but the term varies depending on the particular product.

Sales to CNPC (and its subsidiaries)

During the Track Record Period, CNPC (and its subsidiaries) was our key customer for certain lubricant additives as it is one of the few enterprises in China with extensive operations covering the entire oil and petrochemical industry value chain. We also purchased many raw materials from CNPC (and its subsidiaries) based on a number of factors including its capability to provide stable supply of quality raw materials, competitive pricing, and our long-term relationship with CNPC. When there is an increase in raw materials prices, the prices of the final products will typically increase accordingly. The following table sets forth details of revenue and costs related to CNPC (and its subsidiaries) and a breakdown of their gross profit during the Track Record Period.

During the Track Record Period, we sold lubricant additive components and packages to subsidiaries and/or branches of CNPC that are located in different regions across mainland China and primarily engage in lubricant manufacturing business. The goods we sold to these subsidiaries and branches mainly include detergent products, ashless dispersant products, antioxidant products and lubricant additive packages for oil-based and paraffin-based refined oil with differing viscosities. Revenue generated from sales to subsidiaries and/or branches of CNPC amounted to RMB1,080.8 million, RMB1,046.3 million and RMB1,065.1 million in aggregate in the years ended December 31, 2011, 2012 and 2013.

During the Track Record Period, we also purchased raw materials for lubricant additives such as polyisobutylene, paracresol and isobutylene, from subsidiaries and/or branches of CNPC that are located in different regions across mainland China and primarily engage in refinery business. Our total

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purchases from subsidiaries and/or branches of CNPC amounted to RMB271,248 million, RMB252,054 million and RMB288,800 million in aggregate in the years ended December 31, 2011, 2012 and 2013.

As the entities to which we sold our products belonged to a different business group of CNPC compared to the business group that we purchased our raw materials from, we are not be able to provide the gross profit relating to CNPC for the Track Record Period.

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
CNPC (and its subsidiaries)			
Revenue generated from sales to CNPC (and its subsidiaries)	1,080,791	1,046,298	1,065,054
Total purchases from CNPC (and its subsidiaries)	<u>(271,248)</u>	<u>(252,054)</u>	<u>(288,800)</u>
	809,543 ⁽¹⁾	794,244 ⁽¹⁾	776,254 ⁽¹⁾

Note:

(1) Such figures only show the arithmetic difference between the revenue generated from sale to one group of subsidiaries and/or branches of CNPC and the total purchases from another group of subsidiaries and/or branches of CNPC.

RAW MATERIALS AND SUPPLIERS

Overview

We purchase a wide range of raw materials from suppliers for our production of lubricant additives and specialty fluorochemical products.

The procurement process involves (i) confirming purchase requirements, such as quantity of raw materials, needed to produce certain products, (ii) describing requirements to potential suppliers, (iii) selecting suppliers based on material quality and past dealings (and in the event it is the initial selection process, through a bidding process), (iv) determining acceptable prices, (v) conducting quality analyses of the raw materials, (vi) placing orders with the suppliers, (vii) tracking and checking orders and invoices, (viii) checking the quality of the raw materials to be accepted and (ix) taking the delivery and closing the procurement transaction.

Given different transportation options, we typically receive raw materials between three to fifteen days after placing the orders. To guarantee quality, we regularly assess our experience with our key suppliers. Furthermore, in order to avoid significant impact of price fluctuations of raw material on our profit margins, the procurement department regularly analyses market prices trends and make forecasts for our management's judgment on procurement arrangement.

Our procurement department consists of 24 professionals in both lubricant additives and specialty fluorochemical segments, including one procurement manager, two assistant managers and several supplier specialists and support staff. Each of the procurement manager and assistant managers must have adequate technical knowledge about our products and the raw materials.

During the Track Record Period, purchases attributable to our single largest supplier accounted for 22.7%, 25.0% and 24.5% respectively, of our total purchases. For the same periods, our five largest suppliers accounted for 63.3%, 66.4% and 68.2%, respectively, of our total purchases in 2011, 2012 and 2013, respectively. During the Track Record Period and up to the Latest Practicable Date, none of

our Directors, their associates or any of our shareholders (which, to the knowledge of our Directors, owns more than 5% of our share capital) held any interests in any of our five largest suppliers.

Raw Materials

We typically enter into one-year contracts with major suppliers for both lubricant additives and specialty fluorochemicals segments, where parties agree to the specification of goods, delivery method, packing standards, pricing and payment terms. We generally are requested to make payment before delivery. However, for suppliers with whom we have established long-term relationships with, we may be allowed to enjoy a credit period of no more than 30 days after the date of delivery. The annual contracts generally contain estimated volume. The prices of raw materials are usually dictated by the market and may fluctuate from time to time. Accordingly, we generally agree to re-negotiate prices on a monthly basis with our suppliers.

We generally acquire raw materials from large domestic suppliers in China, but may also source from overseas suppliers when we could get favorable price, including South Korea and Europe. The raw materials used in our production are widely available in the public markets. In order to avoid unexpected interruption of raw materials supply, our procurement policy requires us to maintain at least three qualified suppliers for each type of raw material. The purpose of this policy is to ensure the availability of materials, so that we are not dependent on a single supplier and enjoy flexibility in purchasing raw materials.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material dispute with any of our suppliers nor have we experienced any material difficulty procuring raw materials for our production.

Lubricant Additives Segment

The key raw materials we purchase for the production of lubricant additives include polyisobutylene, paracresol, isobutylene. In addition, while not a component of our products, we also purchase base oil (a derivative of crude oil) as a packaging medium to process and sell our lubricant additives. Under our lubricant additives segment, we mainly purchases raw materials and base oil (as a packaging medium) from CNPC (and its subsidiaries). We have developed and maintain long-term strategic relationships with many of our lubricant additives suppliers, which have assisted us in ensuring stable prices, quality and timely delivery of raw materials and base oil (as a packaging medium).

Specialty Fluorochemicals Segment

The key raw materials for the production of specialty fluorochemicals are I₂ (iodine), IF₅, R-22 and SbF₅, all of which can be purchased either domestically or imported. R-22 is the key raw material required to produce the TFE monomers, which together with iodine and IF₅, produces TI.

Because of the earthquake in Japan, one of the main supplying countries of iodine, the price of iodine rose sharply in 2011. Since then, the price of iodine steadily decreased. In addition, the PRC government set restrictions on the mining of fluorspar in early 2011, which affected the supply of R-22, the raw material involved for production of TFE. As we have long-term relationships with relevant suppliers, we have not experienced any difficulty in purchasing R-22 during the Track Record

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Period. For details on raw material price of our specialty fluorochemicals segment, please see section headed “Industry Overview — Specialty Fluorochemicals — Raw Materials.” Please also see the section headed “Risk Factors — We rely on our raw material suppliers for our business, which exposes us to risks associated with fluctuations in prices of raw materials, and reductions in the availability of raw material supplies could disrupt our operations.”

Utility

Electricity is supplied to us from region power grids at government-mandated rates. We obtain our water supply from local public utility companies. During the Track Record Period, we did not experience any shortage of power or disruption in our water supply that caused material adverse impact to our production.

INVENTORY CONTROL

Our inventories mainly include raw materials used for our productions and finished goods for sale. For further details, please also see the section headed “Financial Information — Certain Items in the Consolidated Balance Sheet”. We have a set of inventory control procedures in place, which enables us to closely monitor and manage our finished products and raw material inventories at each site in accordance with predetermined target levels. We also apply a “first-in first-out” policy, where feasible, to ensure rapid turnaround of the various raw materials. We also inspect the quality of our inventories on a regular basis to ensure the stored goods are in good condition for sales. Any unqualified goods will be put in quarantine for further process or disposal.

We also conduct physical checks of our inventories, both at our plants and at our external warehouses. We perform monthly counts and reconciliations of finished product and primary raw materials, as well as year-end physical counts of the finished products and all raw materials.

LOGISTICS AND TRANSPORTATION

Our production facilities are located in Bawang Village and Xi Shan, Yi County, Liaoning Province, with convenient access to national railway transportation network and highway network.

We mainly rely on railway and highway to receive raw materials and deliver products to our customers. For sales to overseas customers, we generally deliver goods to designated ports for further shipment. We engage third parties with relevant qualifications or licenses to provide logistics services.

COMPETITION

According to Frost & Sullivan, in 2013, we are the largest lubricant additives producer, headquartered in the PRC, in terms of revenue. For our lubricant additives business segment, our main competitors are global lubricant additives producers particularly those with operations in China, including Lubrizol, which is the largest lubricant additives producer in the world, Infineum, NewMarket Afton and Chevron Oronite. However, with respect to some of the lubricant additives, such as long-chain linear alkyl benzene sulphonic acid, for which we are the sole producer headquartered in the PRC, there is no competition.

According to Frost & Sullivan, we are the only company headquartered in the PRC to have developed the expertise in telomerization technology and the only company in the world to produce

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specialty fluorochemicals via a moderate pressure, moderate temperature and flexible telomerization process. According to Frost & Sullivan, while the PRC fluorochemicals market is composed of many small and mid-sized producers. According to Frost & Sullivan, our main specialty fluorochemicals competitors are global competitors, in particular, those have operations in China, namely 3M, DuPont, Daikin, Clariant and Asahi Glass.

As a science and technology based company, we mainly compete against our competitors in terms of innovation of the products, technology, key equipment, competitive pricing, good quality, advanced functionality, production volume, cost of production, marketing strategy, long-term client base. Please also refer to the section headed “Risk Factors — We face competition from other specialty chemicals companies.”

INTELLECTUAL PROPERTY RIGHTS

We rely on a combination of trade secrets, patents and trademarks in order to protect the technological innovations developed by our R&D team and the goodwill generated by our Group.

Trade secrets

In manufacturing our lubricant additives and specialty fluorochemical products, we develop certain know-how. We believe that many elements of our lubricant additives and specialty fluorochemical products and manufacturing processes involve proprietary technologic know-how, technology or data that are not covered or are not able to be covered by patents. We have established an information protection system (including operational protection measures and non-disclosure agreements with key employees), which is described below, to protect our proprietary rights. Please see the section headed “— Protection of intellectual property rights”.

Patents

In addition to the protection of trade secrets, we have applied for and have been granted patents in the PRC to protect new processes for the production of our products. As of the Latest Practicable Date, we owned 25 patents in China, including five patents we acquired from Liaoning Tianhe. In addition, as of the Latest Practicable Date, we had five patent applications in China. For more information on the patents, please refer to the section headed “Appendix V — Statutory and General Information” to this prospectus.

Trademarks

We currently use 12 trademarks in the PRC, all of which are registered to Jinzhou DPF-TH. We have filed trademark applications for two of the registered trademarks in foreign countries, including Germany, Britain and Japan. Jinzhou DPF-TH has entered into agreements to grant licenses to (i) one registered trademark to North China Petrochemical from December 1, 2012 to October 1, 2022; (ii) one trademark to Sino Asia Petrochemical from March 1, 2013 to January 1, 2023, (iii) one registered trademark to FHT from April 1, 2013 to March 1, 2023 and (iv) one trademark to Ningxia Tianhe Fine Chemicals Co., Ltd. (寧夏天合精細化工股份有限公司), an independent third party, from February 25, 2014 to February 24, 2016.

Protection of intellectual property rights

The protection of our technologies, products and processes is essential for our businesses. In order to protect our trade secrets and other proprietary know-how, we take the following key measures: (i) all of our key R&D personnel are required to enter into non-disclosure and non-competition agreements with us, (ii) codes (instead of chemical names) are used in our operations manual to prevent disclosure of the chemical composition, (iii) all R&D results are sealed, and only a limited number of employees have access to information about the entire R&D process of a particular proprietary technology, (iv) certain technical know-how, chemical formulae and manufacturing procedures are also stored and password protected on computer hard drives belonging to the relevant R&D personnel as well as our information technology officer, and (v) for the production of products involving certain key technologies, we arrange for their production to be located at different sites to limit the number of personnel with access to and knowledge of the entire process. We have implemented procedures to ensure that only a very limited number of employees have access to information about the entire production process from input material to final product. Our employment and consultancy agreements address intellectual property protection issues and require our employees to assign to us all of their inventions, designs, technologies, and any other intellectual property they develop during their employment with us.

We have not been subject to any material infringement of our intellectual property rights or allegations of infringements by third parties during the Track Record Period, except infringements or allegations which do not have a material effect on our Group as a whole. We are, however, subject to risk in the protection of our intellectual property. Please also refer to the section headed “Risk factors — We may not be able to protect our patents or other intellectual property.”

INFORMATION TECHNOLOGY

Our IT systems are established to achieve operation efficiency and integration of our business data, covering different aspects of our business operations, including supply chain and human resources and other office supporting IT applications, such as video, surveillance, access control, attendance, group portals and e-commerce platform. Our information systems are under the management of our network information center, which consists of four IT engineers responsible for operation and maintenance. We seek technical support from external service providers where necessary.

We intend to upgrade our IT systems based on our business needs, in order to achieve sustainable development.

PROPERTIES**Land Use Rights*****Owned land***

As of the Latest Practicable Date, we held land use rights for 20 land parcels with an aggregate site area of 1,930,213.8 square meters, the details of which are as follows:

- 19 parcels of land with an aggregate site area of 1,885,348.1 square meters were granted land with land use rights certificates obtained by us. As advised by our PRC legal adviser, we are entitled to legally occupy, use, benefit from or otherwise dispose of the land use

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right of such 19 parcels of land in accordance with the applicable PRC laws and regulations.

- One parcel of land with site area of 44,865.7 square meters were allocated land with land use right certificate obtained by us. As advised by our PRC legal adviser, we are entitled to legally occupy and use this parcel of land within the scope of use specified in the land use right certificate and in accordance with relevant PRC laws and regulations regarding the use of land.

Leased Land

As of the Latest Practicable Date, we leased four pieces of land with an aggregate site area of 145,927.3 square meters. As advised by our PRC legal adviser, we are entitled to legally occupy and use such parcel of land within the scope of use specified in the land lease agreements.

Self-owned Sea Area Use Rights

As of the Latest Practicable Date, we held sea area use rights for one piece of sea area of 318,850 square meters, based on which we are permitted to construct marine reclamation land of 318,850 square meters. As advised by our PRC legal adviser, we are entitled to legally occupy and use this parcel of sea area within the scope of use specified in the sea area use right certificate.

Buildings

We are headquartered in Jinzhou, Liaoning Province in the PRC, with a corporate office in Beijing.

Owned Buildings

As of the Latest Practicable Date, we owned 211 buildings with total GFA of 139,224.2 square meters and we held the valid title certificates for all these buildings. We use these buildings primarily for storages, workshops and warehouses. Our PRC counsel has confirmed that we possess legal ownership of the properties for which we hold valid title certificates, which we are entitled to occupy, use, benefit from and dispose of.

For four buildings with an aggregate GFA of 11,164.4 square meters, we put them into use before obtaining the construction completion approval and building ownership certificates from the relevant PRC government authorities. We use these four buildings primarily for workshops, dining facilities and dormitories. For further discussion on legal consequence of this incidence, please also see the section headed “— Legal Proceedings and Compliance — Non-Compliance.”

Leased Buildings

As of the Latest Practicable Date, we leased one building in Hong Kong with an aggregate GFA of 139.2 square meters, which we used as an office.

As of the Latest Practicable Date, we leased eight buildings in the PRC with an aggregate GFA of 1,358.7 square meters. The leased properties in the PRC are primarily used for office building and dormitories. The relevant property owners of the nine buildings had valid title ownership certificates as of the Latest Practicable Date.

QUALIFICATIONS AND LICENSES

We operate in a highly regulated industry. According to the relevant PRC laws and regulations, we need to obtain and maintain different licenses and permits in relation to manufacturing and sales of our products, mainly include safety production permit and registration certificate of hazardous chemicals producers. We are also requested to renew such licenses and permits from time to time. During the Track Record Period, we have not experienced any delay in approval or renewal of our license that resulted in material adverse effect to our operations. In addition, we are qualified to supply products for many leading global lubricant producers, including CNPC (and its subsidiaries), Sinopec (and its subsidiaries), Total, JX Nippon Oil & Energy and a multinational lubricant manufacturer in Europe. Please also see the section headed “Risk Factors — We may fail to renew our certification or qualification as a supplier of our customers.”

ENVIRONMENT, HEALTH AND SAFETY**Overview**

We value corporate social responsibilities and have been, and intend to continue to be, committed to observing environmental protection and safety regulations in all of our business activities to ensure our operations are in compliance with the applicable international standards. We have established quality, environment, occupational health and safety, or QHSE, management systems and procedures according to relevant laws and regulation. In particular, we have established a three tiered management structure with respect to environment, health and safety issues, with our vice president, being the head of our Energy and Environmental Department at our headquarters, to oversee and supervise the overall direction and make critical decisions in case of emergency. The Energy and Environmental Department, comprising 22 employees, including our vice president, takes charge of the preparation and implementation of our environment, health and safety related rules and regulations in our daily operations, which covers various aspects of our operations, including production, storage and transportation of our products and raw materials, prevention of pollution, training and protection of employee’s health, and documentation and management for resettlement of affected local communities. At subsidiary level, we request the manager of each subsidiary and the head of each plant to be responsible for compliance of QHSE rules and regulations.

In addition, we have established a comprehensive management of change program, or MOC, to manage any modifications made to our operations, such as construction of new production lines and renovation to existing production lines. As a part of our overall risk management system, MOC ensured our continued compliance to applicable laws and regulations.

As of the Latest Practicable Date, we have obtained *Quality Management System ISO9001*, *Environmental Management System ISO14001* for each of our production facilities that was in operation. In addition, as of the Latest Practicable Date, operating facilities of Jinzhou DPF-TH and FHT have obtained *Occupational Health and Safety Management System GB/T28001-2011 and GB/T28001-2001* certifications, respectively.

Environment Protection

We have been, and intend to continue to be, committed to improve environmental protection and safety in all of our business activities. Because our business involves the production and storage of certain hazardous chemicals and materials, we strictly comply with national, industrial and local

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environmental standards, and in cases there are no local, national or industrial standards, we follow applicable international or foreign standards. The standards we adhere to include aerial emission, noise, surface and water contamination, pollutant emission, waste gas processing, and solid waste and waste water discharges. Further information on the applicable laws and regulations on environmental standards is set forth in the paragraphs under “Regulatory Overview — Legal Supervision over Environmental Protection in China” of this prospectus. In addition to these standards, we have also developed a series of internal policies and programs for pollutant control, material control, pollution prevention and environmental risk prevention in accordance with requirements of applicable national, industrial and local laws, regulations and policies.

We currently hold PRC’s pollutants emission permit and actively manage water pollution and air pollution according to the relevant PRC laws and regulations. Pollution control equipment has been installed at production facilities and operated to control air, water and waste emissions. In order to decrease the discharge of potentially polluted water, we have installed a water recycling plant at the Bawang Village production facility, which could recycle 500 tonnes per day of water used in the production of our lubricant additives. This plant commenced operations in September 2011. As advised by our PRC legal adviser, as of the Latest Practicable Date, we have received all material permits, licenses and approvals relating to environmental protection and safety production. As of the Latest Practicable Date, we had not received any notifications or warnings and had not been subject to any fines or penalties in relation to any breach of any applicable environmental laws or regulations which has materially adversely affected our production.

In particular, our capacity to produce specialty chemical products through PFOA- and PFOS-free production process allows us to capture a growing market demand for PFOA- and PFOS-free products among stain-protectant coating manufacturers around the world. PFOA and PFOS are hazardous synthetic chemicals that do not occur naturally in the environment and if exposed to them, remain in people for a long time. As a result, we believe our products could be used to replace the products manufactured through traditional ways. For details, please see the subsection headed “— Business and Products — Specialty Fluorochemicals Segment — Production Procedures.” Please also see the section headed “Risk Factors — We face risks from the handling and storage of hazardous, toxic and flammable materials.”

We have completed construction of our environment protection facilities at our plant prior to the Track Record Period. As a result, during the Track Record Period, our expenses on environmental protection were mainly for maintenance of the relevant facilities, which consisted of the fees of discharging sewage and afforestation fees only. During the Track Record Period, this amount was RMB0.4 million, RMB0.8 million and RMB0.6 million, respectively. For the year ending December 31, 2014, we expect our expenses on environmental protection to amount to RMB1.0 million.

Safety and Health

All of our production facilities and employees are required to adhere strictly to the principles of safety code outlined by our health and safety department. In addition, we have implemented infrastructure and safety policies to ensure equipment safety, to prevent or minimize community exposure to hazardous materials, and to avoid exacerbation of natural hazards, such as landslides or floods. In addition, as of the Latest Practicable Date, operating facilities of Jinzhou DPF-TH and FHT have obtained *Occupational Health and Safety Management System GB/T28001-2011 and GB/T28001-2001* certifications, respectively. In addition, we have been complied with the *Globally Harmonized System of Classification and Labelling of Chemicals*, or GHS, which addresses the

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classification of chemicals by types of hazards and prescribes safety labels and data sheets, and with the *Registration, Evaluation, Authorization and Restriction of Chemicals* in the European Union, or REACH, which addresses the registration, evaluation, authorization and restriction of chemicals in the European Union. During the Track Record Period and up to the Latest Practicable Date, there has not been any material injury or fatality at any of our production facilities.

EMPLOYEES AND LABOR RELATIONS

We believe that the long-term growth of us depends on the knowledge, experience and development of our employees. Our human resources department is in charge of the employee recruitment, training, compensation and performance appraisal. As of the Latest Practicable Date, approximately 80% of our work force was represented by labor unions. The table below presents the number of our full-time employees as of March 31, 2014.

	<u>As of March 31,</u> <u>2014</u>	<u>%</u>
Production	855	61.1
R&D	108	7.7
Administration	195	13.9
Sales and Marketing	20	1.4
Others	221	15.8
Total	<u>1,399</u>	<u>100.0</u>

The table below presents the number of our full-time employees as of March 31, 2014 located in different geographic regions.

	<u>As of March 31,</u> <u>2014</u>
PRC	1,392
Overseas	<u>7</u>
Total	<u>1,399</u>

As of March 31, 2014, all of our seven foreign employees were located overseas.

In addition to competitive salaries, we provide employees supplementary compensation benefits, such as free shift dormitories, free shuttle bus transportation, additional paid annual leaves, medical allowance, healthcare subsidies, accommodation allowance, and food and beverage allowance. In addition, we value our employees important asset of our Company and provide them with continuing education, in-service training and encourage their career development through accumulating on-the-job experience. For the employees of our subsidiaries that operate in the PRC, we are requested to make contributions to various government sponsored employee benefit funds, including social insurance fund, basic pension insurance fund and unemployment, maternity and work related insurance funds in accordance with applicable PRC laws and regulations. Please also see the section headed “— Legal Proceedings and Compliance.”

We believe that our current relations with our employees and the labor unions are good and are based on mutual support and respect. During the Track Record Period and up to the Latest Practicable Date, there have been no labor disputes or strikes at any of our production facilities.

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INSURANCE

We purchase insurance for our equipment according to the relevant PRC laws and regulations. In addition, we maintain director and officer liability insurance for our Directors and executive officers. We also maintain mandatory insurance policies covering liability for traffic accidents (including death and injury, medical expenses and property damage), and insurance policies covering motor vehicles, life and work-related injuries. We are not insured against consequential damages, environmental damage, terrorist acts and war related events or for end product liability.

The Directors believe that our insurance coverage is in accordance with what is usual and common practice in the industry in the PRC, including with respect to the terms of and the coverage provided by such insurance. Moreover, our policies are subject to standard deductibles, exclusions and limitations. Therefore, insurance might not necessarily cover all losses incurred by us and the Directors cannot provide any assurance that we will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, our insurance policies.

During the Track Record Period, we paid RMB0.5 million, RMB2.1 million and RMB1.8 million, respectively, in insurance premiums.

No material insurance claims were made during the Track Record Period.

QUALITY CONTROL

We have a quality control department which consisted of 64 professionals as of the Latest Practicable Date, and maintain a rigorous quality control system for each segment of production cycle ranging from raw material supply to manufacturing, and have a successful delivery track record and provide quality after-sale services. We test samples of each batch of raw materials on-site. Sub-standard raw materials are typically rejected. To ensure raw material quality, we have developed and implemented strict quality assessment standards and management systems. When the production processes begin, we regularly conduct semi-finished product analyses to ensure that the quality of the semi-finished products are on-track with international standards at varying stages. Once the products have been manufactured, they also undergo extensive and strict quality assessment and packaging.

We adhere to the basic policy that unqualified raw materials are not permitted to enter our warehouses, unqualified semi-finished products are not allowed to enter the next phase of production, and unqualified products are not permitted to leave the production facilities. In addition, we promote the diversification and refinement of the same series of products. Accordingly, we developed a different quality control indicator for each version of the same series of products. We have also passed ISO9001 standard for our qualification control system. Based on these quality control measures, we have kept qualification rate of our final products at 100% since 2001.

During the Track Record Period and up to the Latest Practicable Date, we have never experienced return of goods or disputes with our customers due to quality of our products that may have a material adverse impact to our business operations.

RISK MANAGEMENT

We are exposed to various risks during our operations. For more details, please see the section headed "Risk Factors". We have implemented various policies and procedures to ensure effective risk

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management at each aspect of our operations, including the production and sales of products, administration of daily operations, financial reporting and recording, fund management, compliance with applicable laws and regulations on environment protection, production safety, anti-bribery and anti-money laundry. Such policies and procedures include the following:

Board and Audit Committee

Our Board oversees and manages the overall risks associated with our operations. We have established an audit committee to review and supervise the financial reporting process and internal control system of our Group. Please refer to “Directors and Senior Management — Committees of the Board of Directors — Audit Committee” for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee.

We have prepared written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

LEGAL PROCEEDINGS AND COMPLIANCE

We are involved in various claims and lawsuits in our ordinary course of business from time to time. As of the Latest Practicable Date, we are not aware of any litigation, arbitration or investigation against us or our Directors that would cause material adverse effect to our business operations or financial results.

As advised by our PRC legal advisor, during the Track Record Period and up to the Latest Practicable Date, other than those disclosed in this prospectus, we have been in compliance with relevant PRC laws and regulations for our business operations in all material aspects and have obtained all material licenses, permits and certificates for our operations in China.

Non-Compliance

Name of the Subsidiary	Description of Non-compliance incidents	Legal consequence and maximum potential penalty	Status and Remedial actions and measures to prevent recurrence
FHT	<p>We put four buildings with an aggregate gross floor area of approximately 11,164.4 square meters into use as workshops, dining facilities and dormitories before obtaining the construction completion approval and the building ownership certificates because of the prolonged approval process with the relevant government authorities.</p>	<p>As advised by our PRC legal adviser, we commenced the use of relevant buildings prior to obtaining construction completion approval and building ownership certificates, we may be subject to fines amounting to up to 4% of the aggregated consideration of relevant construction agreements, which amount to approximately RMB0.6 million.</p> <p>In addition, we are required to be liable for any loss incurred by using such buildings without obtaining relevant construction completion approval.</p>	<p>During the Track Record Period and up to the Latest Practicable Date, we have not received any penalty from the relevant PRC government authorities in relation to our failure to receive such certificates.</p> <p>As of the Latest Practicable Date, we have obtained the construction completion approval and the building ownership certificates.</p>
<p>Jinzhou DPF-TH, FHT, North China Petrochemical and Tianhe Zhiye</p>	<p>We have not paid the housing provident fund contributions required under the PRC laws in respect of their employees, because the relevant local government authorities have not commenced establishing accounts for private companies to make such contributions as of the Latest Practicable Date.</p>	<p>As advised by our PRC legal adviser, we may be required by the relevant housing provident fund administration authority to make the unpaid contributions.</p>	<p>We have enhanced our internal control measures to avoid recurrence of similar matters in the future. For instance, we now request the managers at each subsidiary to submit relevant certificates to our senior management and audit committee for approval prior to commencing use of the relevant building.</p> <p>We will continue to check with the relevant local government authorities on the progress of the establishment of accounts for private companies to make contributions and will make full payment of such housing provident fund contributions for our employees when such accounts are established.</p>

Name of the Subsidiary	Description of Non-compliance incidents	Legal consequence and maximum potential penalty	Status and Remedial actions and measures to prevent recurrence
Jinzhou DPF-TH and Tianhe Zhiye	<p>We have not paid the relevant social security insurance contributions required under PRC law in respect of certain employees because the relevant employees have not made their own social security contributions as required by the PRC law, which we would be required to make a matching contribution.</p>	<p>We may be required by the relevant social security insurance administration authority to make the unpaid contributions within a certain period of time and pay a penalty on the unpaid contributions in an amount equal to 0.05% per day of the unpaid contributions.</p> <p>If we do not pay the required amounts within the prescribed period, a further fine equal 100% to 300% of the unpaid amounts may be imposed on us.</p> <p>From the respective date of the social insurance registration of Jinzhou DPF-TH and Tianhe Zhiye to the Latest Practicable Date, the amount of social insurance contribution in arrears is approximately RMB1.6 million, and the amount of maximum penalty that may be imposed due to the non-compliance of Jinzhou DPF-TH and Tianhe Zhiye relating to social security insurance contributions is approximately RMB4.9 million.</p>	<p>To the extent practicable, we have liaised with the employees with a view to rectify the non-compliances and have made payments in respect of the past contributions required from us.</p> <p>Tianhe Zhiye has commenced paying all the required social insurance since late March 2014 and will make such required contributions going forward.</p> <p>In addition, we also plan to implement the following measures to prevent recurrence of such incidents:</p> <ol style="list-style-type: none"> 1. We plan to implement new policies including requiring new employees to provide confirmation that they are qualified to make social security insurance contributions before we formally employ them. 2. The human resources department will submit semiannual reports to the audit committee in respect of the status of the social security insurance contributions.

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We have made provisions in the amount of RMB19.0 million in aggregate as of December 31, 2013. We believe such amount is sufficient to cover our liabilities in respect of unpaid housing provident fund contributions and social security insurance contributions. After the Listing, we will disclose the rectification progress for the above mentioned incidents in our interim and annual reports.

In light of the nature of, and reasons for, the non-compliances, and on the basis of the remedial actions taken, and given that the Group has adopted substantially all of the recommendations made by an internal control consultant, our Directors believe, and the Joint Sponsors have no reason to doubt that the enhanced internal control measures are adequate and effective to address the non-compliances as set out above, and they are not aware of any facts or circumstances that might affect the suitability of our Directors and our suitability for listing.

PROPERTY VALUATION

As of December 31, 2013, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), our Controlling Shareholders will own 64.576% of the total issued share capital of our Company. Please see the paragraph headed “C. Further Information about Directors and Substantial Shareholders — 2. Substantial Shareholders” in Appendix V of this prospectus for details of the shareholding interests of our Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that our Group is capable of carrying on its business independently from our Controlling Shareholders and their associates after the Listing Date for the following reasons:

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after Listing, the Company has full rights to make all decisions on, and to carry out, our own business operations independently. Our Group holds the licenses and intellectual property rights necessary to carry on our business, and has sufficient capital, facilities and employees to operate the business independently from our Controlling Shareholders.

We have access to third parties independently from and not connected to our Controlling Shareholders for sources of suppliers and customers. We have also adopted a set of internal control procedures to maintain effective and independent operation of our business.

We use certain domain names licensed to us by Liaoning Tianhe. This constitutes our connected transaction and details have been set out in the section headed “Connected Transaction” in this prospectus.

Our Directors confirm that the connected transaction does not have any material negative impact on our operational independence from our Controlling Shareholders because the domain names licensed to us by Liaoning Tianhe are for general corporate uses only, and can be replaced by other comparable domain names if necessary.

Save as disclosed in the section headed “Connected Transaction” in this prospectus, we do not have any other continuing connected transactions with our Controlling Shareholders.

Management Independence and Corporate Governance

The Company’s management and operational decisions are made by the Board in a collective manner. The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors, of whom only two, namely Mr. Wei Qi and Mr. Wei Xuan, are our Controlling Shareholders.

Other than Mr. Wei Qi and Mr. Wei Xuan, none of our Directors or senior management will have a role in any company owned by our Controlling Shareholders other than our Group. Accordingly, management decisions by our senior management or Board of Directors will effectively be made independently of our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors will ensure compliance with the applicable laws and regulations (including the Listing Rules) in the case of any potential or actual conflicts of interests between us and our Controlling Shareholders. The Articles of Association have also provided the management of conflicts procedures, including but not limited to requiring our Directors to abstain, subject to certain exceptions, from voting on any contract or arrangement or proposal in which they are materially interested. Our three independent non-executive Directors, together with our non-executive Director, will control the majority of the votes of our Board of Directors in the event Mr. Wei Qi and Mr. Wei Xuan need to abstain from voting on any contract or arrangement or proposal in which they or any of their associates are materially interested.

In addition, each of our Directors is aware of his fiduciary duties as a director of a listed company in Hong Kong which requires that, among other things, he acts in the best interests of our Group and does not allow any conflict between his duties as a Director and his personal interests. Our Controlling Shareholders have also entered into the Deed of Non-competition in favor of our Company so as to further mitigate any potential conflicts of interests. For details of the Deed of Non-competition, please see “— Deed of Non-competition” of this section.

We believe that we have good corporate governance measures and adequate arrangements to manage possible conflicts of interests and safeguard the interests of our Shareholders in regard to our dealings with other companies controlled by our Controlling Shareholders. Based on the above, our Directors are satisfied that the Board as a whole together with the senior management team is able to manage the Group independently of our Controlling Shareholders.

Financial Independence

As of December 31, 2013, our Group had RMB172.5 million of amount due to Mr. Wei Xuan and Liaoning Tianhe, and RMB1,234.9 million of Shareholder’s loan from Driven Goal. Liaoning Tianhe also provided guarantees for certain loans of our Group in an aggregate amount of RMB454 million. On the other hand, our Group provided guarantees for certain banking facilities of Liaoning Tianhe in an aggregate amount of RMB300 million. We also pledged certain shares in members of our Group to certain Pre-IPO Investors and ICBC International Securities Limited. Please see “Our History and Corporate Structure” for details. As at the Latest Practicable Date, we have already settled the amounts due to Mr. Wei Xuan and Liaoning Tianhe, and discharged the guarantee for Liaoning Tianhe. Our Directors have confirmed that we will repay the amount due to Driven Goal in full upon the Listing by using part of the proceeds from the Global Offering. Please see “Future Plans and Use of Proceeds” for further details. All of the share pledges and guarantees provided by Liaoning Tianhe will also be discharged upon the Listing. See also “Financial Information — Related Party Transactions”.

We have adopted a set of internal control procedures for cash receipts and payment and have independent access to third-party financing. We also make financial decisions according to our own business requirements.

EXCLUDED BUSINESS

Our Controlling Shareholders have interests in various companies including, among others, Heisenberg Group which is 100% beneficially owned by them and do not form part of our Group. Jinzhou Heisenberg and its subsidiaries (“**Heisenberg Group**”) is principally engaged in the commercial production of marine fuel and diesel oil products (the “**Excluded Business**”). As disclosed

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

in the section headed “Our History and Corporate Structure — Spin-off of marine fuel and diesel oil businesses and loan from ICBCI” of this prospectus, the Excluded Business was disposed of by Jinzhou DPF-TH to Jinzhou Heisenberg in 2011 as it was a different line of business from those of our Group and it was in the infant stage of development.

Heisenberg Group’s principal products include diesel and bunker fuel, which are used in engines to generate power and are sold directly to dealers and end-users. This is different from our lubricant additives, which are added in lubricants used on moving parts of machinery to reduce friction and surface fatigue, as well as heat generation, operating noise and vibrations. Our lubricant additives customers are mainly oil additives and lubricants manufacturers and not end-users. On the other hand, our specialty fluorochemical products are used to improve the performance of products in the textiles, electronics, coatings, automobiles, pharmaceuticals, agricultural, optical and other industries, and are sold to manufacturers of downstream specialty fluorochemicals and trading companies. Accordingly, Heisenberg Group’s products and our Group’s products are different and therefore cannot be substituted for each other. Given our Group does not engage in the production of marine fuel and oil products, the Excluded Business does not constitute any competition with our Group’s businesses. Pursuant to the asset transfer agreement with Jinzhou Heisenberg in December 2011, we have also undertaken to Jinzhou Heisenberg, among others, (i) not to engage in any business which is in competition, or likely to be in competition, with the Excluded Business; and (ii) not to solicit the management personnel involved in the Excluded Business to leave Jinzhou Heisenberg, within 3 years of the completion of the asset transfer, that is, up to December 2014. Our Directors also confirm that our Group does not currently have any plan to engage in the Excluded Business.

Based on the information provided by our Controlling Shareholders, Heisenberg Group recorded operating revenue (unaudited) of nil, RMB28.9 million and RMB2.9 million for the three years ended December 31, 2013 respectively, and (unaudited) operating loss of RMB4.9 million, operating profit of RMB0.4 million and operating loss of RMB15.6 million during the same period respectively.

There is no overlapping of management members (including Directors and senior management) between our Group and the Heisenberg Group, nor is there any sharing of production facilities or business transactions between our Group and the Heisenberg Group. Ms. Wei Xiao, one of our Controlling Shareholders and daughter of Mr. Wei Qi, is involved in the management of the Heisenberg Group and does not undertake any management position in our Group.

Our Directors and our Controlling Shareholders believe that the listing of our Group without the inclusion of the Excluded Business will provide more focused funding sources for our Group to finance its principal line of business in lubricant additives and specialty fluorochemicals, and will enable us to achieve its valuation potential which, in turn, will be beneficial to our Shareholders taken as a whole.

Taking into account of the above, our Directors believe that it will be in the best interests of our Company and its Shareholders if our Group maintains its focus and devote resources in the businesses of lubricant additives and specialty fluorochemicals in which our Group has achieved encouraging results so far.

For the reasons set out above, the Excluded Business was not included in our Group and our Directors were advised by our Controlling Shareholders that there is currently no intention to inject the

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Excluded Business into our Group. Our Directors believe that with the Deed of Non-competition and the corporate governance measures as mentioned above put into place after the Listing, any potential competition between our Group and Heisenberg Group will be minimized and monitored.

RULE 8.10 OF THE LISTING RULES

As the Excluded Business does not constitute any competition with our Group's businesses, nor can its products substitute our Group's products, our Controlling Shareholders and our Directors do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

Our Controlling Shareholders have entered into the Deed of Non-competition in favor of our Company (for itself and as trustee for the benefit of its subsidiaries), under which our Controlling Shareholders have undertaken to our Company that they will not, and will use their best endeavors to procure that none of their respective associates (other than members of our Group) will, directly or indirectly (including through any body corporate, partnership, joint venture or other contractual arrangement) or as principal or agent, either on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any members of our Group),

- carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with the Business (as defined below) (the "**Restricted Business**"), whether as a shareholder, director, officer, partner, agent, lender, employee, consultant or otherwise; and
- take any action which interferes with or disrupts or may interfere with or disrupt the Business of our Group including, but not limited to, solicitation of any of the then current customers, suppliers or employees from any members of our Group.

For the purpose of the Deed of Non-competition, our "**Business**" is defined to cover (a) the conduct, directly or indirectly, of R&D in relation to, and production, marketing, sale and distribution of, (i) lubricant additives and specialty fluorochemicals and (ii) products derived from lubricant additives or specialty fluorochemicals; (b) the production of base oil (used in the production of lubricant additives), fluorspar and monochlorodifluoromethane (HCFC-22/R-22) (used in the production of specialty fluorochemicals); (c) the R&D, production, marketing, sale and distribution of the downstream applications of internally produced lubricant additives and specialty fluorochemicals. For the avoidance of doubt, the foregoing definition of "Business" shall not include the R&D, production, marketing, sale and distribution of marine fuel or diesel oil products, but it shall include those of marine-use lubricants and lubricant additives.

The Deed of Non-competition does not apply to the relevant Controlling Shareholder's holding in the shares of a company where:

- the total number of shares held by our Controlling Shareholders does not exceed ten per cent. of the issued shares of such company which is or whose holding company is listed on a stock exchange; or

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than ten per cent. of its consolidated turnover or consolidated assets, as shown in its latest audited accounts.

The respective obligations of each of our Controlling Shareholders under the Deed of Non-competition shall terminate on the earliest of (i) the Shares cease to be listed on the Hong Kong Stock Exchange; and (ii) our Controlling Shareholders and their associates (other than members of our Group), individually or jointly, cease to hold or control, directly or indirectly, 30 per cent. or more of the entire issued share capital of our Company.

Our Controlling Shareholders have further undertaken to procure that any new business investment or other business opportunity relating to the Business (the “**Business Opportunity**”) identified by or made available to them or any of their associates, they shall and shall procure that their associates shall refer such Business Opportunity to our Company on a timely basis and in the following manner:

- refer the Business Opportunity to our Company by giving written notice (“**Offer Notice**”) to our Company of such Business Opportunity within 30 days of identifying the target company (if relevant) and the nature of the Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for our Company to consider whether to pursue such Business Opportunity;
- upon receiving the Offer Notice, our Company shall seek approval from the Board or a board committee (in each case comprising, among others, independent non-executive Directors) who do not have an interest in the Business Opportunity (the “**Independent Board**”) as to whether to pursue or decline the Business Opportunity (any Director who has actual or potential interest in the Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not count towards the quorum for, any meeting or part of a meeting convened to consider such Business Opportunity);
- the Independent Board shall consider the financial impact of pursuing the Business Opportunity offered, whether the nature of the Business Opportunity is consistent with the Group’s strategies and development plans, the general market conditions of the Business; if appropriate, the Independent Board may appoint independent financial and legal advisers to assist in the decision-making process in relation to such Business Opportunity;
- the Independent Board shall, within 30 days of receipt of the written notice referred above, inform the relevant Controlling Shareholders in writing on behalf of our Company its decision whether to pursue or decline the Business Opportunity;
- the relevant Controlling Shareholders shall be entitled but not obliged to pursue such Business Opportunity if he or she or it has received a notice from the Independent Board declining such Business Opportunity or if the Independent Board failed to respond within such 30 days’ period mentioned above; and
- if there is any material change in the nature, terms or conditions of such Business Opportunity pursued by our Controlling Shareholders, they shall refer such Business Opportunity as so revised to our Company as if it were a new Business Opportunity.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Further undertakings

Our Controlling Shareholders have further undertaken to, among others:

- procure all relevant information relating to the implementation of the Deed of Non-competition in their possession and/or the possession of any of their associates to be provided to us;
- provide all information requested by our Company (or its auditors) which is necessary for an annual review by the independent non-executive Directors of its compliance with the Deed of Non-competition and the enforcement of the same;
- procure our Company to disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition either through the annual report, or by way of announcements to the public; and
- upon the request of the Company, provide a written confirmation in respect of its compliance and that of its associates with the non-competition undertakings under the Deed of Non-competition and consent to the inclusion of such confirmation in the Company's annual report.

Our Controlling Shareholders, for themselves and on behalf of their associates (except any members of our Group), have also acknowledged that we may be required by the relevant laws, regulations, rules of the stock exchange(s) on which we may be listed and the regulatory bodies to disclose, from time to time, information on the Business Opportunity, including but not limited to disclosure in public announcements or our annual report or decision made by us to pursue or decline the Business Opportunity and has agreed to the disclosure to the extent necessary to comply with any such requirement.

Assessment of compliance with non-competition undertakings

Our Directors who have no material interest in the matters discussed will, based on the information available to them, including information and confirmation provided by or obtained from our Controlling Shareholders and their associates (other than members of our Group) as described above, review on an annual basis (a) the compliance with the non-competition undertakings; and (b) all the decisions taken in relation to whether to exercise the option under the Deed of Non-competition and whether to pursue any business opportunities which may be referred or offered to us by our Controlling Shareholders or their associates (other than members of our Group) under the Deed of Non-competition. Findings of such review will be disclosed in our annual report after the Listing.

CONNECTED TRANSACTION

CONTINUING CONNECTED TRANSACTION

Jinzhou DPF-TH, a member of our Group, has entered into certain transaction with Liaoning Tianhe and the transaction is expected to continue on a continuing or recurring basis after Listing, thereby constituting a continuing connected transaction of our Company under the Listing Rules. We set out below a summary of this continuing connected transaction that is expected to continue after Listing:

<u>Type of transaction</u>	<u>Parties</u>	<u>Term</u>	<u>Applicable Listing Rules</u>	<u>Waiver Sought</u>
<i>Exempt continuing connected transaction</i>				
1. Domain Names Licensing Agreement with Liaoning Tianhe	<ul style="list-style-type: none">● Liaoning Tianhe, as licensor● Jinzhou DPF-TH, as licensee	January 27, 2014 to December 31, 2020	Rule 14A.33(3)	N/A

EXEMPT CONTINUING CONNECTED TRANSACTION

1. Domain Names Licensing Agreement with Liaoning Tianhe

On January 27, 2014, Liaoning Tianhe, as licensor, entered into a domain names licensing agreement (the “**Domain Names Licensing Agreement**”) as supplemented on March 3, 2014, with Jinzhou DPF-TH, as licensee, pursuant to which Liaoning Tianhe agreed to grant exclusive right to Jinzhou DPF-TH to use certain domain names with nil consideration. The Domain Names Licensing Agreement is for a term from January 27, 2014 until December 31, 2020. For details of the domain names, please see “Appendix V — B. Further Information about the Business — 2. Intellectual Property Rights of Our Group — (c) Domain names — (ii) Domain names licensed to use by our Group in the PRC”.

Applicable Listing Rules

As mentioned above, Liaoning Tianhe is an associate of our Controlling Shareholders and a connected person of our Company. As the Domain Names Licensing Agreement will continue after Listing, it will constitute a continuing connected transaction under Rule 14A.45 to 14A.47 of the Listing Rules upon Listing.

The Domain Names Licensing Agreement will be exempted from the reporting, annual review, announcement and independent Shareholders’ approval requirements under Rule 14A.33 of the Listing Rules because (a) it is conducted on normal commercial terms to Jinzhou DPF-TH, and (b) the applicable percentage ratios (as defined in the Listing Rules) is, on an annual basis, less than 0.1%.

DIRECTORS’ VIEW

The Directors (including the independent non-executive Directors) are of the view that: (i) it is in the interests of our Group to continue the transactions under the Domain Names Licensing Agreement after the Listing; (ii) the Domain Names Licensing Agreement was entered into with Liaoning Tianhe in the ordinary and usual course of business of our Group; and (iii) the terms of the Domain Names Licensing Agreement with Liaoning Tianhe are on normal commercial terms (as defined in Chapter 14A of the Listing Rules) and are therefore fair and reasonable and in the interests of our Company and our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

OVERVIEW

Our Board currently consists of eight Directors, comprising four executive Directors, one non-executive Directors and three independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business.

The following table sets out information regarding our Directors and our senior management.

Directors

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining our Group</u>	<u>Date of appointment as director of our Company</u>	<u>Responsibilities</u>	<u>Relationship with other directors and senior management</u>
Mr. WEI Qi (魏奇)	59	Executive Director, Chairman	August 2004	May 2007	Responsible for overall business strategy and major business decisions of the Group	Brother of Mr. WEI Xuan
Mr. WEI Xuan (魏宣)	53	Executive Director, Chief Executive Officer	August 2004	May 2007	Responsible for general management and day-to-day operation of the Group	Brother of Mr. WEI Qi
Mr. Joseph LEE (李駒)	36	Executive Director, Chief Financial Officer	February 2014	February 2014	Responsible for the financial operations and the overall business of the Group	N/A
Mr. JIANG Po(姜頰)	44	Executive Director, Vice General Manager	May 2007	March 2014	Responsible for the day-to-day operation of the Group	N/A
Mr. Homer SUN (孫弘)	42	Non-Executive Director	March 2012	March 2012	Responsible for the overseas business development of the Group	N/A
Dr. LOKE Yu (alias LOKE Hoi Lam, 陸海林)	64	Independent Non-Executive Director	May 2014	May 2014	Performing his duties as a Director through the Board, remuneration committee and audit committee	N/A

DIRECTORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining our Group</u>	<u>Date of appointment as director of our Company</u>	<u>Responsibilities</u>	<u>Relationship with other directors and senior management</u>
Mr. CHAN Kin Sang (陳健生)	62	Independent Non-Executive Director	May 2014	May 2014	Performing his duties as a Director through the Board and nomination committee	N/A
Mr. XU Xiaodong (徐曉東)	66	Independent Non-Executive Director	May 2014	May 2014	Performing his duties as a Director through the Board, nomination committee, remuneration committee and audit committee	N/A

Senior Management

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining our Group</u>	<u>Date of appointment of current position</u>	<u>Responsibilities</u>	<u>Relationship with Directors and other senior management</u>
Mr. WEI Xuan (魏宣)	53	Executive Director, Chief Executive Officer	August 2004	August 2011	Responsible for general management and day-to-day operation of the Group	Brother of Mr. WEI Qi
Mr. Joseph LEE (李駒)	36	Executive Director, Chief Financial Officer	February 2014	February 2014	Responsible for the financial operations and the overall business of the Group	N/A
Mr. JIANG Po (姜頗)	44	Executive Director, Vice General Manager	May 2007	March 2014	Responsible for the day-to-day operation of the Group	N/A
Dr. Paul Raphael RESNICK	80	Chief Scientist	August 2004	August 2004	Responsible for the development and research into new products and processes	N/A

DIRECTORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining our Group</u>	<u>Date of appointment of current position</u>	<u>Responsibilities</u>	<u>Relationship with Directors and other senior management</u>
Dr. David Allen FLANIGAN	55	Chief technical officer — specialty fluorochemicals	August 2004	August 2004	Responsible for the product direction and development, business analysis, process and equipment design, and process hazard review	N/A
Dr. David Alan OFFORD	46	Chief technical officer — surface protectant	December 2006	December 2006	Responsible for the management of fluorochemical research & development department and the invention and promotion of new products	N/A
Mr. Ravi GIRIMAJI	59	CEO of lubricant additives segment	February 2014	February 2014	Responsible for the technology, production and marketing of additives	N/A

Mr. Wei Qi, an executive Director, is responsible for overall business strategy and major business decisions of the Group. Mr. Wei Xuan, an executive Director and our Chief Executive Officer, is responsible for general management and day-to-day operation of the Group. Our non-executive Directors, including our independent non-executive Directors, perform their duties through the Board and do not participate in the day-to-day management of our business operations. The members of our senior management are responsible for the day-to-day management of our business operations.

Directors

Executive Directors

Mr. WEI Qi is an executive Director and Chairman of the Company, being responsible for overall business strategy and major business decisions of the Group. Mr. Wei is also a director of each subsidiary of the Company except Tianhe Zhiye. Mr. Wei joined us in August 2004 as the chairman and general manager of FHT. Mr. Wei's primary working experiences include: chairman and general manager of Jinzhou DPF-TH (primarily engaging in the business of producing specialty chemicals) since May 2007, general manager and chairman of Liaoning Tianhe (primarily engaging in the business of producing specialty chemicals) since June 1998 and February 2004 respectively, a vice chief of Yi County Transportation Bureau (who was responsible for the management of the operational assets of the bureau) and a deputy manager and then manager (who was responsible for the material management, business management of passenger transport, and overall management and operations, respectively) of Yi County Transportation Co., Ltd. (primarily engaging in logistics transportation

DIRECTORS AND SENIOR MANAGEMENT

business) from October 1985 to February 1992, establishing Yi County Fine Chemicals Factory (the predecessor to Liaoning Tianhe and primarily engaging in the business of producing specialty chemicals) in September 1992. Mr. Wei completed three years' education in chemical machinery from Liaoning University in the PRC in July 1986. Mr. Wei did not hold directorships in any listed companies in the last three years.

Mr. WEI Xuan is an executive Director and the Chief Executive Officer of the Company, being responsible for general management and day-to-day operation of the Group. Mr. Wei is also a director of each subsidiary of the Company except Tianhe Zhiye. Mr. Wei joined us in August 2004 as a director of FHT. Mr. Wei's primary working experiences include: a director and vice general manager (who was responsible for the strategic development and capital operations) of Jinzhou DPF-TH (primarily engaging in the business of producing specialty chemicals) from May 2007 to August 2011, an operation manager (who was responsible for the strategic development and capital operations) of Liaoning Tianhe (primarily engaging in the business of producing specialty chemicals) from June 1998 to February 2004 and a deputy general manager of that company from March 2004 to June 2007. Before that, he was a vice general manager (who was responsible for the financing management) of Yi County Fine Chemicals Factory (primarily engaging in the business of producing specialty chemicals) from June 1992. Mr. Wei completed three years' education in commercial enterprise management from Liaoning University in the PRC in September 1987. Mr. Wei did not hold directorships in any listed companies in the last three years.

Mr. Joseph LEE is an executive Director and the Chief Financial Officer of the Company, being responsible for the financial operations and overall business of the Group. Mr. Lee joined us in February 2014 as the Chief Financial Officer of our Company. His primary working experiences include: a vice president and then an executive director (who was responsible for client coverage and execution of financing and M&A transactions) in Morgan Stanley (primarily engaging in investment banking business) from April 2010 to February 2014, an associate (who mainly did research and investment related work for investment targets) in the Carlyle Group (engaging primarily in private equity business) from March 2009 to April 2010, an associate (who mainly worked on financing and M&A transactions) in Morgan Stanley from March 2008 to December 2008, a summer associate and later an associate (who mainly worked on M&A transactions) in Bear, Stearns & Co., Inc. (primarily engaging in investment banking business) from May 2005 to August 2005 and from July 2006 to February 2008, respectively, an analyst (who mainly provided business consulting services) in Deloitte Consulting LP (which is a consulting company) from August 2000 to June 2002. Mr. Lee obtained a bachelor's degree in management from Binghamton University in the United States in May 2000, and a master's degree in business administration majoring in finance & economics from Columbia University in the United States in May 2006. Mr. Lee did not hold directorships in any listed companies in the last three years.

Mr. JIANG Po is an executive Director and the Vice General Manager of the Company, being responsible for financial management. Mr. Jiang is also a director of Jinzhou DPF-TH, FHT and North China Petrochemical. Mr. Jiang joined us in May 2007 as a director and head of finance of Jinzhou DPF-TH. Mr. Jiang's other primary working experiences include: the head of finance of Liaoning Tianhe (primarily engaging in the business of producing specialty chemicals) from November 1998 to May 2007 and the financial section chief of Yi County Fine Chemicals Factory (primarily engaging in the business of producing specialty chemicals) from November 1995 to June 1998. Mr. Jiang completed two years of education in finance & accounting from Liaoning Finance School in July 1987. Mr. Jiang did not hold directorships in any listed companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Homer SUN is a non-executive Director of the Company, being responsible for the overseas business development of the Group. Mr. Sun is also a director of each subsidiary of the Company except Tianhe Zhiye. Mr. Sun joined us in March 2012 as a non-executive Director. Mr. Sun is currently the chief investment officer (overseeing all Asia investments) of Morgan Stanley Private Equity Asia (a pan-Asian private equity fund) and leads the fund's China investments. He is also a managing director of Morgan Stanley (which is a financial institution engaged in various investment-related businesses including acquisitions in China) where he has worked since April 2000. He is currently a member of the China Management Committee of Morgan Stanley, which is comprised of Morgan Stanley's most senior business leaders within China. Mr. Sun has been acting as a non-executive director for Sihuan Pharmaceutical Holdings Group Ltd. (listed on the Hong Kong Stock Exchange, stock code: 00460, primarily engaging in the research, development, production and sales of pharmaceutical drugs) since October 2010, and a non-executive director of Nature Flooring Holding Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 02083, primarily engaging in the sales and production of wood flooring products) since May 2008. Mr. Sun has also been acting as an independent non-executive director of China XD Plastics Company Limited (listed on the NASDAQ Stock Exchange, ticker: CXDC, primarily engaging in the research, development, manufacturing and sales of modified plastics mainly used in the fabrication of automobile parts and components) since January 2012, and an independent non-executive director of Yongye International, Inc. (listed on the NASDAQ Stock Exchange, ticker: YONG, primarily engaging in the research, development, production and sales of crop nutrient products) since June 2011. His other primary working experiences include: a non-executive director of China Shanshui Cement Group Ltd. (listed on the Hong Kong Stock Exchange, stock code: 0691, primarily engaging in cement sales and production) from October 2006 to October 2013, and an associate (who was responsible for M&A transactions) at Simpson Thacher & Bartlett (a law firm focusing on advising on mergers and acquisitions) from September 1996 to March 2000. Other than as disclosed in this prospectus, Mr. Sun did not hold directorships in any listed companies in the last three years. Mr. Sun obtained a bachelor's degree in chemical engineering, *magna cum laude*, from the University of Michigan in the United States in April 1993 and a Juris Doctor degree, *cum laude*, from the University of Michigan Law School in May 1996.

Independent Non-executive Directors

Dr. LOKE Yu (alias LOKE Hoi Lam), is an independent non-executive Director of the Company. Dr. Loke joined us in May 2014 as an independent non-executive Director.

Dr. Loke has been serving as an independent non-executive director of China Household Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 692, primarily engaging in sales of household products, fabrics, garments and other related accessories) since August 2013, an independent non-executive director of Tianjin Development Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 882, primarily engaging in utilities, operation of hotels, electrical and mechanical equipments, winery products, elevators and escalators and port services, etc) since December 2012, an independent non-executive director of Chiho-Tiande Group Limited (listed on the Hong Kong Stock Exchange, stock code: 976, primarily engaging in metal recycling, foundry and wholesales business) since June 2010, an independent non-executive director of Zhong An Real Estate Limited (listed on the Hong Kong Stock Exchange, stock code: 672, primarily engaging in property development, leasing and hotel management) since June 2009, an independent non-executive director of SCUD Group Limited (listed on the Hong Kong Stock Exchange, stock code: 1399, primarily engaging in manufacture and sale of rechargeable battery packs and related accessories) since May

DIRECTORS AND SENIOR MANAGEMENT

2009, an independent non-executive director of Winfair Investment Company Limited (listed on the Hong Kong Stock Exchange, stock code: 287, primarily engaging in securities investments, property leasing and property development) since April 2007, an independent non-executive director of China Fire Safety Enterprise Group Limited (listed on the Hong Kong Stock Exchange, stock code: 445, primarily engaging in installation of fire prevention and fighting systems and equipment) since August 2006, an independent non-executive director of Sino Distillery Group Limited (listed on the Hong Kong Stock Exchange, stock code: 39, primarily engaging in production and sale of ethanol products) since June 2005, an independent non-executive director of VODone Limited (listed on the Hong Kong Stock Exchange, stock code: 82, primarily engaging in operation of tele-media business, lottery-related business and mobile games business) since May 2005 and an independent non-executive director of Matrix Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1005, primarily engaging in manufacture and distribution of LED lights, gifts, novelties items, infant and pre-school children toys) since September 2004.

Dr. Loke's primary working experiences also include: a company secretary of Minth Group Limited (listed on the Hong Kong Stock Exchange, stock code: 425, primarily engaging in sales of exterior automobile body parts and moulds of passenger cars) since June 2007, a chairman of MHL Consulting Limited (a private company primarily engaging in corporate consultancy services) since September 2004, a visiting professor of the College of Applied Arts and Sciences, Beijing Union University from April 2004 to March 2009. He was the founding partner of H.L. Loke & Co., Loke Hoi Lam & Co., Loke & Heng, Baker Tilly, chartered accountants, Hong Kong from February 1980 to December 1991 and a partner in Tse & Loke, Certified Public Accountants from March 1993 to May 1996, working principally on auditing, taxation, secretarial and cross-border consultancy services throughout East Asia. Other than as disclosed in this prospectus, Dr. Loke did not hold directorship in any other listed companies in the last three years.

Dr. Loke obtained a master of business administration degree from Universiti Teknologi Malaysia in April 2001 and a doctor of business administration degree from University of South Australia through long distance courses in March 2006. Dr. Loke is a Fellow of The Institute of Chartered Accountants in England and Wales since January 1982 (elected as Associate since 1976); the Hong Kong Institute of Certified Public Accountants since June 1988 (elected as Associate since February 1977); the Institute of Chartered Secretaries and Administrators since October 2013 (elected as Associate since October 1977); the Hong Kong Institute of Chartered Secretaries and Administrators since October 2013 (elected as Associate since August 1994) and the Hong Kong Institute of Directors since April 2004.

Mr. CHAN Kin Sang, is an independent non-executive Director of the Company. Mr. Chan joined us in May 2014 as an independent non-executive Director.

Mr. Chan has been serving as an independent non-executive director of Tianjin TEDA Biomedical Engineering Company Limited (listed on the GEM Board of the Hong Kong Stock Exchange, stock code: 8189, primarily engaging in the R&D and commercialization of biological compound fertilizers, medical and health products) since May 2013, a non-executive director of Combest Holdings Limited (listed on the GEM Board of the Hong Kong Stock Exchange, stock code: 8190, primarily engaging in the manufacturing and sales of functional healthcare household bedroom and OEM consumer electronic products) since June 2011 and an independent non-executive director from September 2004 to June 2011, an independent non-executive director of China Taifeng Beddings Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 0873, primarily engaging in

DIRECTORS AND SENIOR MANAGEMENT

the manufacturing and distribution of quality cotton yarns and bedding products) since November 2009, an independent non-executive director of Luxking Group Holdings Limited (listed on the Singapore Exchange Securities Trading Limited, stock code: L34, primarily engaging in the research, development, production and distribution of adhesive tapes) since June 2005, an independent non-executive director of China Precious Metal Resources Holdings Company Limited (listed on the Hong Kong Stock Exchange, stock code: 1194, primarily engaging in gold mining and processing) since June 2004 and a non-executive director of Pan Hong Property Group Limited (listed on the Singapore Exchange Securities Trading Limited, stock code: P36, primarily engaging in the sales of residential and commercial properties) since August 2006. Mr. Chan was a senior partner of Messrs. Peter K.S. Chan & Co., Solicitors and Notaries (a law firm which provides various services including corporate matters and litigations) from September 1996 to April 2006 and has been the sole proprietor since then.

Mr. Chan's primary working experiences include: a non-executive director of Pacific Plywood Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 0767, primarily engaging in the business of money lending and provision of credits, securities investments, provision of corporate secretarial and consultancy services and forestry business) from December 2011 to April 2013 and then as an independent non-executive director from April 2010 to December 2011, a non-executive director of United Pacific Industries Limited (listed on the Hong Kong Stock Exchange, stock code: 0176, primarily engaging in the contract manufacturing, tools, magnetic technologies, precision measurement and consumer electronics) from January 2011 to June 2013, an alternate director of Zhongda International Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 0909, primarily engaging in the development, manufacture and sales of automobile equipment, spare parts and buses) from March 2012 to March 2013, an independent non-executive Director of Ming Kei Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 8239, primarily engaged in property investments and business of coal) from March 2012 to June 2012, a non-executive director of Mayer Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 1116, primarily engaging in manufacturing and trading of products made of steel, property investment and leasing of aircrafts) from June 2010 to December 2011, an independent non-executive director of People's Food Holdings Limited (listed on the Singapore Exchange Securities Trading Limited, stock code: P05, primarily engaging in producing, marketing and distributing top-quality processed meat products) from February 2001 to January 2014. Other than as disclosed in this prospectus, Mr. Chan did not hold directorship in any other listed companies in the last three years.

Mr. Chan obtained a bachelor's degree in laws from the University of Hong Kong in November 1979 and a postgraduate certificate in laws from the University of Hong Kong in July 1980. He has been a practicing solicitor in Hong Kong since April 1982 and has been admitted as a Notary Public since April 1997 and a China-appointed Attesting Officer since January 2000. Mr. Chan has also been a Fellow of the Hong Kong Institute of Directors since August 2004, a Chairman of the Appeal Tribunal (Buildings Ordinance Cap.123) since February 2007, and a member of the Solicitors Disciplinary Tribunal since January 2005.

Mr. XU Xiaodong is an independent non-executive Director of the Company. Mr. Xu joined us in May 2014 as an independent non-executive Director. Mr. Xu has been the chairman of China Gas Association Distributed Energy Professional Committee since July 2012 and the contract research fellow of the Counsellors' Office of the State Council of the PRC since March 2009. He was also the president of Vantone Foundation (primarily engaging in promoting the domestic construction of ecological community, environmental protection and energy-saving and emission reduction) from May 2009 to April 2013. He joined the National People's Congress Environment Protection and Resources

DIRECTORS AND SENIOR MANAGEMENT

Conservation Committee in April 1969 where he was subsequently promoted to a chief and retired in October 2010. He was the secretary to the vice chairman of the National People's Congress Standing Committee from August 1983 to April 1989. Mr. Xu completed three years' education in machinery from Beijing Open University in the PRC in August 1983 and was a visiting scholar of the University of Regina from September 1998 to September 1999. Mr. Xu did not hold directorships in any listed companies in the past three years.

Senior Management

Mr. WEI Xuan is an executive Director and the Chief Executive Officer of the Company. For details about Mr. Wei's background, please see "Directors" under this section.

Mr. Joseph LEE is an executive Director and the Chief Financial Officer of the Company. For details about Mr. Lee's background, please see "Directors" under this section.

Mr. JIANG Po is an executive Director and the Vice General Manager of the Company. For details about Mr. Jiang's background, please see "Directors" under this section.

Dr. Paul Raphael RESNICK is the chief scientist of the Company, being responsible for the development and research into new products and processes. Dr. Resnick joined us in August 2004 as the chief scientist. He was a member of the plastics department of E I DuPont de Nemours (who was responsible for the basic and applied research in the field of fluorinated monomers, polymers and small molecules containing fluorine) when he first joined, and subsequently appointed a DuPont fellow, which is the highest technical position at the company, from November 1962 to December 1998. Dr. Resnick received an award for creative work in fluorine chemistry from American Chemical Society in 1995 and was presented an award for outstanding service as chairman of the division of fluorine chemistry from the American Chemical Society in 1985. Dr. Resnick obtained a bachelor's degree in chemistry from Swarthmore College in the United States in June 1955 and a doctor's degree in chemistry from Cornell University in the United States in February 1961.

Dr. David Allen FLANIGAN is the chief technical officer for specialty fluorochemicals division of the Company, being responsible for the product direction and development, business analysis, process and equipment design, and process hazard review. Dr. Flanigan joined us in August 2004 as a technology consultant for Liaoning Tianhe. His primary working experiences include: an engineering consultant at David Flanigan Ltd. (an engineering consulting firm) from September 1994 to June 2004, a senior research engineer for upstream operations (who was responsible for developing technology for the improvement of upstream operations) and a supervisor of manufacturing technology for fluoroproducts (who was responsible for the design and production of fluorochemical products) for Conoco (which is a multinational oil company) from June 1984 to September 1994. Dr. Flanigan obtained a bachelor's degree, a master's degree, and a doctor's degree in chemical and petroleum-refining engineering in May 1981, December 1983 and May 1987, respectively, from Colorado School of Mines in the United States. Dr. Flanigan was qualified as an On Site Hazardous Materials Technician granted by DuPont in association with the State of Delaware in June 1996.

Dr. David Alan OFFORD is the chief technical officer for surface protectant of the Company, being responsible for the management of fluorochemical research & development department and

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invention and promotion of new products. Dr. Offord joined us in December 2006 as the technical consultant for the surface protectant department of FHT (primarily engaging in manufacturing specialized fluoro-chemicals). His primary working experiences include: the technical officer and chief scientific officer (who was responsible for the management of research & development department and the invention and promotion of new products) of Nano-Tex Inc. (which was formerly known as Avantgarb LLC) (primarily developing chemicals for textile finishing agents based on nanotechnology) from July 1998 to November 2006 and a research director (who was responsible for the laboratory R&D and inventing new products) in Alnis LLC (primarily providing countermeasures to chemical and biological weapons) from September 1997 to July 1998. Dr. Offord obtained a bachelor's degree in chemistry from Bethany College in the United States in May 1990, and obtained a doctor's degree in chemistry from Stanford University in the United States in September 1995.

Mr. Ravi GIRIMAJI is CEO of lubricant additives segment of the Company, being responsible for the technology, production and marketing of additives. Mr. Girimaji joined us in February 2014 as the CEO of lubricant additives segment of the Company. His primary working experiences include: an external technical consultant of Jinzhou DPF-TH from September 2010 to February 2014, a technology consultant (who was responsible for the new product development, cost reduction and advisory services) of Bharat Petroleum Corporation Limited (an Indian state-controlled oil and gas company with headquarter in Mumbai) from June 2010 to December 2011, a technology & business consultant (who was responsible for the designing, developing, sourcing, formulating and testing work of lubricant products) of TVS MOTOR Company Ltd. (one of the leading two-wheeler manufacturers in India) from April 2005 to March 2010, a technology consultant (who was responsible for advising and consulting with the company in R&D regarding metal working additives, products and industry) of The Lubrizol Corporation (primarily providing specialty chemicals and additives for engine oils) from February 2005 to March 2008, a managing partner (who was responsible for the overall management of marketing and technology) of Standard Oil Services (primarily engaging in the design and development of lubricant additives) since September 1994, the managing partner (who was responsible for the manufacturing and distribution of specialty cutting tools and lubricants) of Contax (primarily engaging in the manufacturing and distribution of specialty cutting tools and lubricants for special applications) from January 1980 to December 1987.

COMPANY SECRETARY

Mr. YEUNG Ming Fai joined us in January 2014 and was appointed as the company secretary of our Company by our Board in March 2014. Mr. Yeung's primary experiences include: a paralegal in Cheung & Choy from July 2013 to September 2013, a paralegal and later a trainee solicitor in Robertsons Law Firm from April 2011 to May 2013, an attorney-at-law in Guanghe Law Firm from September 2009 to December 2010, a trainee lawyer and later an attorney-at-law in Zhong Lun Law Firm from March 2007 to June 2009 and a graduate engineer in MWH Hong Kong Ltd. from September 2000 to July 2003. Mr. Yeung obtained the Legal Professional Qualification of the PRC granted by the Ministry of Justice of the PRC in February 2007. Mr. Yeung obtained the Postgraduate Certificate in Laws from the City University of Hong Kong in July 2011 and was admitted as solicitor and practicing lawyer of Hong Kong by the High Court of Hong Kong and the Law Society of Hong Kong in August 2013 and February 2014 respectively. Mr. Yeung obtained a bachelor's degree in engineering from University of Hong Kong in November 2000, a bachelor's degree in law from University of London through its external program in Hong Kong in August 2004 and a master's degree in law from University of Glasgow in the United Kingdom in December 2005.

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COMMITTEES OF THE BOARD OF DIRECTORS

Our Board of Directors delegates certain responsibilities to various committees. In accordance with our Articles of Association and the Listing Rules, we have formed three board committees, namely the nomination committee, remuneration committee and the audit committee.

Nomination Committee

Our nomination committee consists of one executive Director and two independent non-executive Directors. The one executive Director is Mr. Joseph Lee and the two independent non-executive Directors are Mr. Chan Kin Sang and Mr. Xu Xiaodong. Currently, Mr. Chan Kin Sang is the chair of the committee.

The principal responsibilities of the nomination committee include:

- assisting the Board in discharging its responsibilities relating to the composition of the Board;
- evaluating the balance of skills, knowledge and experience on the Board;
- evaluating the size, structure and composition of the Board; and
- evaluating the retirements and appointments of additional and replacement directors and making appropriate recommendations to the Board on such matters.

Remuneration Committee

Our remuneration committee consists of one executive Director and two independent non-executive Directors. The one executive Director is Mr. Wei Xuan and the two independent non-executive Directors are Mr. Xu Xiaodong and Dr. Loke Yu (alias Loke Hoi Lam). Currently, Mr. Xu Xiaodong is the chair of the committee.

The principal responsibilities of the remuneration committee include:

- making recommendations to the Board on the Company's policy on executive Director's remuneration;
- determining the individual remuneration and benefits package of each of the executive Directors; and
- recommending and monitoring the remuneration of senior management below Board level.

Audit Committee

Our audit committee consists of one non-executive Director and two independent non-executive Directors. The one non-executive Director is Mr. Homer Sun and the two independent non-executive Directors are Dr. Loke Yu (alias Loke Hoi Lam) and Mr. Xu Xiaodong. Currently, Dr. Loke Yu (alias Loke Hoi Lam) is the chair of the committee.

The principal responsibilities of the audit committee include:

- reviewing the Company's annual financial statements;
- reviewing and monitoring the extent of the non-audit work undertaken by external auditors; and

DIRECTORS AND SENIOR MANAGEMENT

- advising on the appointment of external auditors; and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors receive compensation in the form of Directors fees, salaries, housing allowances and other allowances, benefits in kind, the employer's contribution to the pension schemes and discretionary bonuses. The remuneration package of the senior management is similar to that of the Directors. The total compensation accrued to our Directors for the years ended December 31, 2011, 2012 and 2013 was RMB276,000, RMB285,000 and RMB286,000, respectively.

The aggregate compensation (including fees, salaries, discretionary bonus, defined contribution benefit plans (including pension), housing and other allowances, as well as other benefits in kind) paid to our five highest paid individuals (including one Director for the year ended December 31, 2013) during the three years ended December 31, 2011, 2012 and 2013 were RMB5,560,000, RMB6,786,000 and RMB4,248,000, respectively.

Under the arrangement currently in force, we estimate the total compensation to be paid or accrued to our Directors for the year ending December 31, 2014 to be RMB12,000,000.

We did not pay to our Directors or the five highest paid individuals any inducement fees to join us or as compensation for loss of office for each of the years ended December 31, 2011, 2012 and 2013. Furthermore, none of our Directors waived any compensation for the same period.

Save as disclosed above, no other payments have been paid or are payable, in respect of the three financial years ended December 31, 2011, 2012 and 2013, by us or any of our subsidiaries to our Directors.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. The principal terms of this scheme are summarized in the paragraph headed "Statutory and General Information — D. Share Option Scheme" in Appendix V of this prospectus.

The maximum number of Shares which may be issued upon exercise of all options that may be granted under the Share Option Scheme and any other option scheme involving the issue or grant of options over Shares or other securities by our Company or any of its subsidiaries or invested entity shall not in aggregate exceed 10% of the aggregate nominal amount of the share capital of our Company in issue as of the date of Listing; and the Board has been authorized to determine the grant of a right to subscribe for Shares under, and pursuant to the terms of, the Share Option Scheme and to determine the grantees, number of options to be granted to each grantee and the terms and conditions of such grants pursuant to the terms of the Share Option Scheme.

DIRECTORS' INTEREST

Save as disclosed in this section, each of our Directors (i) did not hold other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other

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relationship with any Directors, senior management or substantial or controlling shareholders of our Company as of the Latest Practicable Date; and (iii) did not hold any directorship in any other listed companies in the three years immediately preceding the date of this prospectus.

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, save as disclosed herein, there was no additional matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders, and there was no additional information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

COMPLIANCE ADVISOR

We have agreed to appoint Cinda International Capital Limited to be our compliance advisor upon Listing on the Hong Kong Stock Exchange in compliance with Rules 3A.19 of the Listing Rules. We have entered into a compliance advisor's agreement with the compliance advisor prior to the Listing Date, the material terms of which are as follows:

- the term of office of the compliance advisor will commence on the Listing Date of our Company and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- the compliance advisor will provide us with certain services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines and advice on the continuing requirements under the Listing Rules and applicable laws and regulations;
- the compliance advisor will, as soon as reasonably practicable, inform us of any amendment or supplement to the Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines; and
- the compliance advisor will serve as a channel of communication with the Hong Kong Stock Exchange.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Global Offering:

	<u>US\$</u>
<i>Authorized share capital:</i>	
50,000,000,000 Shares	50,000
<i>Issued share capital:</i>	
23,490,000,000 Shares in issue as of the date of this prospectus	23,490
<i>Shares to be issued, fully paid or credited as fully paid:</i>	
<u>2,043,000,000</u> Shares to be issued pursuant to the Global Offering	<u>2,043</u>
<u>25,533,000,000</u> Total	<u>25,533</u>

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value not exceeding:

- (i) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering; and
- (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the section headed “— General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire:

- (1) at the conclusion of our next annual general meeting; or
- (2) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (3) when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

SHARE CAPITAL

For further details of this general mandate, please see the section headed “Statutory and General Information — A. Further Information about Our Company and Our Subsidiaries — 3. Resolutions in Writing of the Sole Shareholder of Our Company” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering”, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of our share capital in issue immediately following the completion of the Global Offering.

This general mandate relates only to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — A. Further Information about Our Company and Our Subsidiaries — 7. Repurchases of Our Shares” in Appendix V to this prospectus.

This general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting; or
- (ii) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

For further details of this general mandate, please see the section headed “Statutory and General Information — A. Further Information about Our Company and Our Subsidiaries — 3. Resolutions in Writing of the Sole Shareholder of Our Company” in Appendix V to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no exercise of any option under the Share Option Scheme), the following persons will have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Nature of interest	Number of Shares	Percentage of shareholding
Driven Goal	Beneficial owner	16,488,072,000(L)	64.576%
Gain Elite ⁽¹⁾	Interest of a controlled corporation	16,488,072,000(L)	64.576%
	Derivative interest	2,196,315,000(L) ⁽⁵⁾	8.602% ⁽⁵⁾
Elite Choice ⁽²⁾	Interest of a controlled corporation	16,488,072,000(L)	64.576%
	Derivative interest	2,196,315,000(L) ⁽⁵⁾	8.602% ⁽⁵⁾
Wei Qi ⁽³⁾	Interest of a controlled corporation	16,488,072,000(L)	64.576%
		2,196,315,000(L) ⁽⁵⁾	8.602% ⁽⁵⁾
Tian Xiaoping ⁽⁴⁾	Interest of spouse	16,488,072,000(L)	64.576%
		2,196,315,000(L) ⁽⁵⁾	8.602% ⁽⁵⁾
MegaSky	Derivative interest	2,196,315,000(L) ⁽⁵⁾	8.602% ⁽⁵⁾
Wei Xuan ⁽⁶⁾	Interest of a controlled corporation	2,196,315,000(L) ⁽⁵⁾	8.602% ⁽⁵⁾
Li Min ⁽⁷⁾	Interest of spouse	2,196,315,000(L) ⁽⁵⁾	8.602% ⁽⁵⁾
Crown Indigo	Derivative interest	2,196,315,000(L) ⁽⁵⁾	8.602% ⁽⁵⁾
Wei Xiao ⁽⁸⁾	Interest of a controlled corporation	2,196,315,000(L) ⁽⁵⁾	8.602% ⁽⁵⁾
MSPEA	Beneficial owner	2,196,315,000(L)	8.602%
Investec	Beneficial owner	1,532,017,000(L)	6.000%
Investec plc ⁽⁹⁾	Interest of a controlled corporation	1,532,017,000(L)	6.000%

Notes:

(L) denotes long position

- (1) Gain Elite will hold 70.45% of the total issued share capital of Driven Goal upon the Listing. Accordingly, Gain Elite is deemed to have interest in the 16,488,072,000 Shares to be held by Driven Goal immediately after completion of the Global Offering.
- (2) Elite Choice directly holds 76.20% of the total issued share capital of Gain Elite and therefore, is deemed to be interested in a total of 16,488,072,000 Shares to be held by Driven Goal immediately after completion of the Global Offering.
- (3) Wei Qi directly holds the entire issued share capital of Elite Choice and therefore, is deemed to be interested in the same number of Shares in which Driven Goal is interested.
- (4) Tian Xiaoping is the spouse of Wei Qi. Under the SFO, Tian Xiaoping is deemed to be interested in the same number of Shares in which her spouse is interested.
- (5) Upon the Listing and under certain conditions, if MSPEA proposes to sell or otherwise dispose of any Shares, Gain Elite, Crown Indigo or MegaSky shall have a right of first offer with respect to such Shares. As such, each of Gain Elite, Crown Indigo and MegaSky is considered to have a derivative interest in the 2,196,315,000 Shares to be held by MSPEA immediately after completion of the Global Offering. See "Appendix III — Summary of Terms of Pre-IPO Investments — B. Series A Preferred Shares — Right of First Offer" for further details.
- (6) Wei Xuan directly holds the entire issued share capital of MegaSky and therefore, is deemed to be interested in the same number of Shares in which MegaSky is interested.
- (7) Li Min is the spouse of Wei Xuan. Under the SFO, Li Min is deemed to be interested in the same number of Shares in which her spouse is interested.
- (8) Wei Xiao directly holds the entire issued share capital of Crown Indigo and therefore, is deemed to be interested in the same number of Shares in which Crown Indigo is interested.
- (9) Investec is owned by Investec 1 Limited and Investec Holding Company (Nominees) Limited, and is ultimately controlled by Investec plc. Therefore, Investec plc is deemed to be interested in the Shares to be held by Investec after completion of the Global Offering.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

FINANCIAL INFORMATION

The following discussion and analysis of our business, financial condition and results of operations is based on and should be read in conjunction with our financial statements as of and for each of the years ended December 31, 2011, 2012 and 2013, including the notes thereto, as set forth in “Appendix I — Accountants’ Report” and other financial information appearing elsewhere in this prospectus.

This discussion contains forward-looking statements that involve risks and uncertainties. We caution you that our business and financial performance are subject to substantial risks and uncertainties including, but not limited to, those factors included in the section headed “Risk Factors” in this prospectus. Our future results could differ materially from those projected in the forward-looking statements.

OVERVIEW

We are a leading specialty chemicals producer with its headquarters in the PRC. During the Track Record Period, we derived revenue from our two specialty chemical businesses, lubricant additives segment and specialty fluorochemicals segment. According to Frost & Sullivan, in 2013, we were the largest lubricant additives producer headquartered in the PRC and the sixth largest lubricant additives producer in the world in terms of revenue and one of only five comprehensive multi-line lubricant additives manufacturers in the world. According to Frost & Sullivan, in 2013, we were also the largest specialty fluorochemicals producer headquartered in the PRC in terms of revenue.

Lubricant additives business segment

We produce and sell a broad range of individual lubricant additives components and packages. Lubricant additives may be blended with base oil to produce industrial or commercial products such as engine oil for automobiles, either based on specialized formulas developed by us or according to individual customer specifications. We also produce and sell lubricant additives packages to various leading global lubricant companies.

As of December 31, 2013, we were capable of producing 93 lubricant additives, including 59 types of individual lubricant additive components and 34 lubricant additive packages. In addition, as of the Latest Practicable Date, our in-house R&D department was in the process of developing 29 new lubricant additives and six types of fluorinated lubricant additives.

For the years ended December 31, 2011, 2012 and 2013, the lubricant additives division generated revenue of RMB1,817.0 million, RMB1,774.5 million and RMB2,063.1 million, respectively, which accounted for 54.1%, 42.3% and 41.0%, respectively, of our revenue.

Specialty fluorochemicals business segment

We produce and sell a broad range of specialty fluorochemical products to our customers to improve performance on a vast array of products. Customers for our specialty fluorochemical products operate in a wide variety of industries, including textiles, electronics, coatings, automobiles, pharmaceuticals, agriculture and opticals. We categorize our specialty fluorochemicals as (i) downstream specialty fluorochemical products, such as different types of surface protectant and fluorochemical surfactants; (ii) telomers and specialty fluorochemical intermediates, such as TI, TEI,

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TEAc and TEOH, which are precursors to other specialty fluorochemical products; and (iii) a small number of other products, including HFE and PTFE. For a further description of our specialty fluorochemical products, please see the section headed “Business — Business and Products — Specialty Fluorochemicals Segment — Our Specialty Fluorochemical Products.”

As of December 31, 2013, we were capable of producing over 160 types of specialty fluorochemical products. In addition, as of the Latest Practicable Date, our in-house R&D department was developing 15 types of downstream specialty fluorochemical products.

According to Frost & Sullivan, we are the only company worldwide that has developed the expertise in telomerization technology to produce specialty fluorochemical products under moderate temperature and pressure, resulting in a safer production process and lower production costs compared to the traditional specialty fluorochemical production process.

For the years ended December 31, 2011, 2012 and 2013, the specialty fluorochemical products division generated revenue of RMB1,542.4 million, RMB2,418.1 million and RMB2,970.7 million, respectively, which accounted for 45.9%, 57.7% and 59.0%, respectively, of our revenue.

Our revenue increased from RMB3,359.4 million in 2011 to RMB5,033.8 million in 2013, representing a CAGR of 22.4%. During the Track Record Period, our net profit was RMB948.1 million, RMB2,190.0 million and RMB2,626.2 million, respectively.

RECENT DEVELOPMENTS

For the three months ended March 31, 2014, our revenue increased to RMB1,189.3 million, representing an increase of 41.2%, from RMB842.3 million for the three months ended March 31, 2013, primarily because of the increase in revenue from the specialty fluorochemicals business segment, which constituted 62.5% of our total revenue for the three months ended March 31, 2014, compared to 51.8% for the three months ended March 31, 2013. Revenue from our lubricant additives business segment for the three months ended March 31, 2014 increased to RMB446.1 million, or by 9.8%, from RMB406.1 million for the three months ended March 31, 2013, primarily because of increased sales of lubricant additives as a result of the increase in our production capacity to meet growing demand for our products. Revenue from our specialty fluorochemicals business segment for the three months ended March 31, 2014 increased to RMB743.2 million, or by 70.4%, from RMB436.1 million for the three months ended March 31, 2013, primarily because of increased sales of our specialty fluorochemical products, particularly certain high revenue generating products we introduced in 2013.

Our total gross profit for the three months ended March 31, 2014 was RMB707.6 million, as compared to RMB459.6 million for the three months ended March 31, 2013, representing an increase of RMB248.0 million, or 54.0%, while our overall gross margin increased to 59.5% for the three months ended March 31, 2014 from 54.6% for the three months ended March 31, 2013, primarily due to the increase of sales of specialty fluorochemical products as a proportion of our total sales as a result of our efforts to increase sales of high revenue generating products. The financial information as of and for the three months ended March 31, 2014 as shown above was extracted from the unaudited condensed consolidated financial statements of the Group for the three months ended March 31, 2014 prepared by the Directors in accordance with IAS 34 “Interim Financial Reporting”, which were reviewed by Deloitte Touche Tohmatsu, the reporting accountants of the Company, in accordance with ISRE 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the

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Entity”. The comparative financial information as of and for the three months ended March 31, 2013 has not been reviewed.

Our gross profit for our lubricant additives business segment increased to RMB115.1 million for the three months ended March 31, 2014 from RMB104.3 million for the three months ended March 31, 2013, representing an increase of 10.4%, primarily because of the increase in sales of extreme pressure anti-wear additives that we commenced commercial production in late 2013. Our gross margin of lubricant additives business segment remained stable (25.8% for the three months ended March 31, 2014 and 25.7% for the three months ended March 31, 2013). The gross profit for our specialty fluorochemicals business segment increased to RMB592.5 million for the three months ended March 31, 2014 from RMB355.3 million for the three months ended March 31, 2013, representing an increase of 66.8%, primarily due to the increased sales of high revenue generating products we introduced in 2013. The gross margin for our specialty fluorochemicals business segment decreased from 81.5% for the three months ended March 31, 2013 to 79.7% for the three months ended March 31, 2014, primarily due to the increase in sales of upstream telomers and specialty fluorochemical intermediates, such as TI and TEI. As of April 30, 2014, the latest practicable date for our indebtedness statement, we had total banking credit facilities of approximately RMB1,760.0 million, of which approximately RMB374.4 million was unutilized and unrestricted.

On March 5, 2014, our Company declared a non-recurring dividend of approximately RMB810.0 million (net of withholding tax) out of our distributable reserves to our sole Shareholder as of the record date, Driven Goal. We made full payment of this dividend on April 4, 2014 utilizing the proceeds of an offshore bank loan secured by a pledge over our onshore funds. For details, please see the section headed “— Indebtedness”. Investors in the Global Offering will become our Shareholders after the declaration of dividend, and accordingly, they will not be entitled to this dividend.

In March 2014, we received the total purchase price of our marine fuel assets. Due to the transfer of marine fuel assets to Jinzhou Heisenberg, we incurred a disposal loss of RMB283.1 million in 2011. For a further discussion about the sale of our marine fuel assets, please see the section headed “— Results of Operations — Year ended December 31, 2012 compared with year ended December 31, 2011” and “— Related Party Transactions”.

Our Directors confirm that since December 31, 2013 and up to the date of this prospectus, there has been no material adverse change in the financial position or prospects of our Group and there is no event which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report set forth in Appendix I to this prospectus.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations, financial condition and future prospects have been, and will continue to be, affected by a number of factors, including those set out below.

Macroeconomic conditions

As most of our revenue is generated in the PRC, the operations of each of our business segments are influenced by the PRC’s macroeconomic environment. Furthermore, we view one of our core strategic strengths as our location in China, which has experienced growth in the types of products we develop and manufacture. Accordingly, the PRC’s economic development and other economic trends and factors have a direct impact on our businesses, the demand for our products, the supply and

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prices of our requisite raw materials, and our other costs. In addition, in order to sustain the steady growth of the PRC economy, the PRC government has from time to time adjusted its monetary, financial, fiscal or industry policies, among others, or has implemented other macroeconomic measures. Any adjustment in or implementation of economic policies and measures would also directly or indirectly affect our results of operations and financial condition. Both the PRC's macroeconomic trends and policies could affect our procurement, production, sales and other parts of our business, leading to fluctuations in its results of operations. In addition, because we intend to continue to expand the sales of our products directly to customers outside of the PRC, we may also increasingly be subject to the general economic conditions in the regions where we intend to sell our products. Any economic downturn in the regions where our ultimate customers are based, which may result in reduced demand in end-use industries, such as automobiles, chemicals and pharmaceuticals, could negatively impact our future results of operations and financial condition.

Production capacity for lubricant additives and specialty fluorochemical products

Our results of operations and financial condition are affected by the production capacity of lubricant additives and specialty fluorochemical products. With the increase in demand for the lubricant additives and specialty fluorochemical products in the PRC, we have expanded our production capacity. In 2011 and 2012, our designed production capacity for lubricant additives remained stable at 138,000 tonnes per year, which increased to 199,000 tonnes per year as of December 31, 2013.

The increase in our production capacity for lubricant additives from 2012 to 2013 was primarily due to two new lubricant additives facilities in Bawang Village for the manufacture of detergents (increased by 10,000 tonnes of designed production capacity) and lubricant additives packages (increased by 50,000 tonnes of designed production capacity). In addition, we upgraded our extreme pressure anti-wear additives facility (increased by 1,000 tonnes of designed production capacity). The lubricant additives packages plant became operational in July 2013, and therefore positively impacted the volume (and revenue) of our lubricant additives segment in that year. The detergent additives plant and upgrade of our extreme pressure anti-wear additives plant only became operational in November 2013, and therefore had less impact on our 2013 results of operations. We are currently in the process of building a Group II and III base oils facility which is scheduled to become operational in late 2014 and expanding another detergent facility which is scheduled to become operational in the first half of 2015.

Our designed production capacity for specialty fluorochemical products remained stable at 3,700 tonnes per year in both 2011 and 2012, and increased to 6,900 tonnes per year as of year-end 2013. The increase in our production capacity for specialty fluorochemical products from 2012 to 2013 was due to a new production line for fluoro monomers and telomers, including TI and TEI (increased by 2,400 tonnes of designed production capacity) at our Fuxin plant which commenced operations in October 2013 and an upgrade and expansion to our existing Fuxin production facility for HFE (increased by 800 tonnes of designed production capacity) that commenced operations in December 2013. Our ability to successfully expand our production facilities could impact our future operation and financial results, please see the section headed "Risk Factors — Risks Relating to Our Business — Our future expansion plan and projects may not be adequately executed or completed within our anticipated time frame or budget".

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Segment mix

Our segment mix, or the types of products that we sell, affected our revenue and results of operations during the Track Record Period. We typically generate higher revenue from products that are highly specialized, newer or not supplied by competitors. The proportion of revenue from our specialty fluorochemicals segment, which had higher gross margins during the Track Record Period than our lubricant additives segment, increased from 45.9% in 2011 to 57.7% in 2012 and to 59.0% in 2013. As a result of an increase in the percentage of our revenue from our specialty fluorochemical products segment, our overall gross margin increased over the Track Record Period.

The profit margin of our specialty fluorochemicals is generally higher than that of lubricant additives, primarily because we have been focusing on production of specialty fluorochemical products with high selling prices which could offer high added value to customers by providing desired capabilities and effects that allow our customers to sell their own products at a premium price. Please also see the section headed “Business — Competitive Strengths.” In addition, we believe that the high barriers to entry in the specialty fluorochemicals industry, such as production technology and know-how, R&D capability to develop new products and qualification and training of staff have secured a supply and demand for specialty fluorochemicals that are favorable to us, which contributes to our relatively high profit margin. For instance, according to Frost & Sullivan, we are capable of producing specialty fluorochemical products through a PFOA- and PFOS-free process, which makes us well-positioned to capture the opportunities presented by the increasingly stringent enforcement of global market against using PFOA and PFOS. In addition, we believe we are able to achieve lower overall production costs than our industry peers, because of (i) the adoption of our moderate temperature and pressure telomerization technology leading to a lower capital cost and therefore lower depreciation, and (ii) our capability to internally produce raw materials, such as TI and TEI, for downstream specialty fluorochemical products, which further helps to reduce costs. For details of our production process of specialty fluorochemical, please see the section headed “Business — Business and Products — Specialty Fluorochemicals Segment — Production Procedures.”

Capitalizing on the above mentioned factors, we believe we are well-positioned to continue improving our profitability of specialty fluorochemicals segment and capture the expected growth of market demand for specialty fluorochemicals in China and the world according to the Frost & Sullivan. In particular, on the demand side, according to Frost & Sullivan, the global specialty fluorochemicals market has been growing at a CAGR of 16.2% in the last 5 years and is expected to grow at a CAGR of 9.7% from 2013 to 2018. Additionally, the specialty fluorochemicals market in the PRC is expected to grow even faster at a CAGR of 15.6% from 2013 to 2018, primarily driven by the expected growth in various sub-segments, such as anti-mar applications, fluorosurfactants, stain protection coating etc. Also, the PRC government has provided significant regulatory support for the specialty fluorochemicals industry and has set it as a key focus area in the 12th “Five-Year Plan” as well as in the Revitalization Plan for the Ten Key Industries. In addition, on the supply side, there are high technical barriers to entry for producers due to the stringent environmental requirement from the international communities on producing PFOA- and PFOS-free products, for PFOA and PFOS are environmentally hazardous contaminants. According to Frost & Sullivan, our production process is PFOA- and PFOS-free and we are also the only company in the PRC and worldwide that has developed expertise in telomerization technology under moderate temperature and pressure, resulting in a safer production process and lower production costs. These enable us to capitalize on the opportunities in light of the increasingly stringent enforcement of global regulations against emission of PFOA and PFOS. For more details, please also see the section headed “Industry Overview”. Within

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our specialty fluorochemical products segment, we increased the revenue contribution from our higher revenue generating downstream specialty fluorochemical products, such as anti-mar/anti-reflective coatings and surfactant products.

Product pricing

Historically, we have managed the sales prices of our lubricant additives and specialty fluorochemical products based on sales volume under the legally binding annual framework agreements and the prevailing market prices of our products. In particular, our products require intensive technology expertise and are critical value-added components for their end users. From time to time, we customize our products for the specific requirements of the customers and such customers tend to stick with sourcing from us once we prove ourselves to be a reliable supplier. As a result, we are able to exercise a strong pricing power with our customers and are typically able to charge higher prices for products which are highly specialized, newer or not supplied by competitors in the PRC. For instance, our anti-mar products have been in very strong demand since their launch. The market price of the anti-mar/anti-reflective coatings that contain 20% active ingredient concentration increased from US\$7,240 per kilogram in 2011 to US\$7,750 per kilogram in 2013 according to Frost & Sullivan. Moreover, with our highly flexible production platform, we are also supplying products to medium-sized customers that would individually be considered as too small to have been ordered directly from the larger international producer, given the higher set up cost for the batch production of bespoke products. As a result, we are often the supplier that is able to provide quality products in relatively small-to-medium sized order batches, which helped us to capitalize on this position and achieve high value with these customers.

The average selling prices for our lubricant additives and specialty fluorochemical products, which are subject to rounding and therefore may not be used to derive our revenue, were as follows:

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands per tonne)</i>		
Lubricant additives business segment	16.4	16.3	16.1
Specialty fluorochemicals business segment:			
Downstream specialty fluorochemical products	19,987.2	21,034.5	19,294.5
Telomers and specialty fluorochemicals intermediaries	1,213.2	1,088.4	856.4
Others	105.6	62.9	44.5

In general, the prices we charged for our lubricant additives and specialty fluorochemical products over the Track Record Period remained relatively stable. With respect to the eleven new downstream specialty fluorochemical products we introduced during the Track Record Period, we typically negotiated pricing on a customer by customer basis. The prices we charge on our products and our pricing could directly impact our financial and operating results.

Price of raw materials

We purchase raw materials for the manufacturing of our lubricant additives and specialty fluorochemical products. Our raw materials mainly include the packaging medium base oil for lubricant additives and iodine and R-22 for our specialty fluorochemical products. Base oil is the largest cost contributor to the cost of sales for our lubricant additives segment. According to Frost & Sullivan, the market price of base oil in China was RMB9,140 per tonne in January 2011, rose to

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RMB11,100 per tonne in May 2011, and then gradually declined to RMB9,150 per tonne in January 2012. After rebounding to RMB10,200 per tonne in April 2012, the price decreased from 2011 to 2013, to RMB8,200 per tonne in April 2013 and was RMB8,800 per tonne by the end of 2013.

With respect to our specialty fluorochemicals segment, the two most significant raw materials are iodine and R-22. The price of iodine in China is based on the import price, according to Frost & Sullivan. The import price increased from US\$27,718 per tonne to US\$59,688 per tonne over the course of 2011. It peaked at US\$71,773 per tonne in February 2012, before it began to decline. By the end of 2013, the import price of iodine in China was about US\$38,276 per tonne. According to Frost & Sullivan, the price of R-22 in China declined from its peak value of RMB28,000 per tonne in February 2011 to RMB8,800 per tonne by the end of 2012. During 2013, the price of R-22 in China fluctuated within a small range. Our raw material costs represented a substantial portion of our total cost of manufacturing, for the years ended December 31, 2011, 2012 and 2013 as more fully explained in “— Principal Components of our Income Statement — Cost of Sales”. Therefore, any significant movement in the prices of raw materials could impact our cost of sales, if we cannot pass through the cost increase to our customer, as we currently do not hedge our exposure to the price of these materials. For a further discussion of our raw materials, see “Industry Overview”.

Development of new products

Our business prospects and growth and our ability to compete in the industry largely depend on our ability to develop new products and product segments. For example, in 2011, we commenced the production of four new products and in 2013 seven new products within our specialty fluorochemicals segment. The sales of these new products contributed to the increase in revenue of our specialty fluorochemicals segment from RMB1,542.4 million in 2011 to RMB2,970.7 million in 2013. All of the four new products we developed in 2011 and the seven new products we developed in 2013 are downstream specialty fluorochemical products, such as anti-mar/anti-reflective coatings and surfactants. Our revenue from downstream specialty fluorochemical products represented 8.6%, 32.1% and 33.8% of our total revenue in 2011, 2012 and 2013, respectively. The revenue generated from our specialty fluorochemicals segment, in turn, represented 45.9%, 57.7% and 59.0% of our total revenue during 2011, 2012 and 2013, respectively. Our ability to successfully develop new products and optimize production capacity to align with anticipated market demand has positively impacted our financial condition and results of operations. We believe that the development of new products will continue to be an important factor affecting our results of operations in future periods.

Our ability to continue to develop products in line with technological progress and market trends, particularly for the manufacture of specialty fluorochemical products, depends on our continued investments in R&D. Our success in developing eleven commercially viable products since 2011, including our anti-mar/anti-reflective coatings and surfactant products, demonstrates the commercial benefits we derive from innovation. During the Track Record Period, we incurred RMB8.3 million, RMB7.0 million and RMB10.6 million, respectively, of R&D costs, which primarily includes salaries for our key R&D staff and procurement costs for materials used in our laboratory for experiments. In addition, according to our accounting policy, we capitalize R&D costs in respect of certain products as intangible assets. The capitalized amount will be amortized over the estimated economic life of those products and accounted for as cost and expense for the relevant years or periods. As of December 31, 2013, the net carrying value of our intangible assets amounted to RMB246.7 million. For further information regarding our R&D strategy, see “Business — Research and Development”.

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We have typically generated higher revenue for new, specialized products and products with higher market demand and, accordingly, have focused our R&D efforts on the development of these types of products. As we continue to develop and produce advanced lubricant additives and highly specialized fluorochemical products, we may increase our R&D expenditure.

Taxation

We are subject to corporate income tax in the PRC. During the periods under review, our combined and consolidated profit before tax and income tax expense for the period have been impacted by a number of factors, including expenses for non-tax purposes, effect of expenses not deductible for determining tax profit, tax losses and tax concessions. Our effective tax rates during the Track Record Period were 18.6%, 14.2% and 15.3% in 2011, 2012 and 2013, respectively. During the Track Record Period we enjoyed a preferential tax rate of 15% for our two operating subsidiaries certified as New and High Technical Enterprises. This preferential rate, compared to the 25% statutory rate in the PRC, will expire in 2014 for one of our operating subsidiaries, FHT, and in 2015 for the other, Jinzhou DPF-TH. We intend to apply for an additional three year extension of these preferential rates. In addition, we intend to apply for Hong Kong tax status, which would decrease withholding taxes owned by our PRC subsidiaries on dividend payments to us from 10% to 5%. There is no assurance that our preferential tax rates in the PRC will be extended or that we will become a Hong Kong resident for tax purposes. For a further discussion of our tax status, please see the section headed “— Principal Components of Our Income Statement — Income Tax Expenses”. As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

Financing

In addition to cash generated from our operations, we utilized bank borrowings and shareholder’s loans to fund our operations during the Track Record Period. Our borrowings consist mainly of short-term bank loans and, to a much lesser extent, long-term bank loans, as well as a shareholder’s loan from Driven Goal, which is interest free and U.S. dollar-denominated and which we expect to repay with the proceeds of this Offering as further discussed in “— Liquidity and Capital Resources” and “Future Plans and Use of Proceeds”. In general, we borrowed short-term loans for working capital purposes and apply cash generated from our operations as well as shareholder’s loans to finance our capital expenditures. At April 30, 2014, we had short-term bank borrowings outstanding of RMB2,139.8 million, long-term bank borrowings outstanding of RMB129.5 million, shareholder loans of RMB1,241.9 million and undrawn bank credit facilities of RMB374.4 million.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates and judgments. The estimates and judgments that we use in applying our accounting policies may have a significant impact on our results of operations, assets and liabilities, as reported in our audited consolidated financial statements. Certain of our accounting policies require us to make subjective estimates and judgments, often as a result of the need to make estimates of matters which are inherently uncertain. We continually evaluate these estimates and judgments based on historical experience and other factors, including expectations of future events, which we currently believe to be reasonable. We will continuously assess our assumptions and estimates going forward.

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In addition to the critical accounting policies discussed below, a full discussion of our principal accounting policies is set out in Note 3 of the Accountants' Report to this prospectus, and our critical accounting judgments, estimates and assumptions are set out in Note 4 of the Accountants' Report to this prospectus.

Revenue recognition for the sale of goods

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, net of discounts and sales related taxes. Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- we have transferred to the buyer the significant risks and rewards of ownership of the goods;
- we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to us; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Property, plant and equipment

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

Construction in progress represents properties in the course of construction for production, supply or administrative purposes is carried at cost less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with our accounting policy. These properties are classified in the appropriate categories 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.

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. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

In determining the useful life and residual value of an item of property, plant and equipment, we consider various factors, such as technical or commercial obsolescence arising from changes in production, or from a change in the market demand for the product output of the plant and machinery, expected usage of the plant and machinery, expected physical wear and tear, the care and maintenance of the plant and machinery, and legal or similar limits on the use of the plant and machinery. The

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estimation of the useful life of the asset is based on our experience with similar assets that are used in a similar way. Additional depreciation would be made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation.

We assess whether there are any indicators of impairment for an asset at the end of each financial reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. We would consider the extent of physical damage and technical obsolescence to assess whether the indicators of impairment for an item of property, plant and machinery exist.

An item of property, plant and equipment is derecognized 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 profit or loss when the item is derecognized.

Impairment on doubtful receivables

In determining whether there is objective evidence of impairment loss on doubtful receivables, we consider the aged analysis of trade and other receivables and amounts due from related parties and estimation of future cash flows to be recovered from these receivables. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer or debtor. The amount of the impairment on doubtful receivables 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, an impairment on doubtful receivables may arise.

Impairment loss on tangible and intangible assets

At the end of the reporting period, we review the carrying amounts of its tangible and intangible assets with finite useful lives 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. When it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows which requires significant judgment on items such as sales volume, selling price and operating costs, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If we estimate the recoverable amount of an asset (or a cash-generating unit) to be less than its carrying amount, including changes in our estimates of sales volume, selling price and operating costs

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or actual sales volume, selling price and operating costs different to original estimates, we reduce the carrying amount of the asset (or a cash-generating unit) to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, we increase the carrying amount of the asset (or cash-generating unit) to the revised estimate of its recoverable amount, although the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statements of profit or loss and other 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. Liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be offset. Assets and liabilities are not recognized 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 does not affect the taxable or accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where we are able to control the reversal of the temporary differences 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 are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to offset the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred

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tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred. Subsequent to initial recognition, our internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately. An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

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PRINCIPAL COMPONENTS OF OUR INCOME STATEMENT

The following table shows statements of comprehensive income derived from our combined financial information for the years indicated:

	For the year ended December 31,			2011-12 YoY%	2012-13 YoY%
	2011	2012	2013		
	<i>(RMB in thousands)</i>			<i>(%)</i>	<i>(%)</i>
Revenue	3,359,368	4,192,553	5,033,795	24.8	20.1
Cost of Sales	(1,869,454)	(1,651,300)	(1,986,805)	(11.7)	20.3
Gross profit	1,489,914	2,541,253	3,046,990	70.6	19.9
Other income	13,172	146,369	177,102	N/A	21.0
Other gains and losses	(217,090)	1,482	37,205	N/A	N/A
Selling and distribution expenses	(7,176)	(8,822)	(12,076)	22.9	36.9
Administrative expenses	(67,223)	(64,549)	(75,008)	(4.0)	16.2
Other expenses	(29,407)	(6,972)	(10,572)	(76.3)	51.6
Finance costs	(17,970)	(55,105)	(63,234)	206.6	14.8
Profit before taxation	1,164,220	2,553,656	3,100,407	119.3	21.4
Income tax expenses	(216,109)	(363,692)	(474,178)	68.3	30.4
Profit and total comprehensive income for the year attributable to the owners of the Company	<u>948,111</u>	<u>2,189,964</u>	<u>2,626,229</u>	<u>131.0</u>	<u>19.9</u>

Revenue

The revenue shown in our statements of comprehensive income consists of aggregate revenue generated from external customers in the lubricant additives and specialty fluorochemicals segments. In our audited financial statements, we also segment our revenue geographically based on where the initial purchaser of our products is located. As substantially all of our products during the Track Record Period were initially purchased by trading companies and customers based in the PRC, this segmented information does not reflect the geographic locations of our end customers, and therefore we have not included this information in our discussion of revenue.

The following table sets forth our revenue by product segment, for the years ended December 31, 2011, 2012 and 2013.

	For the year ended December 31,			2011-12 YoY%	2012-13 YoY%
	2011	2012	2013		
	<i>(RMB in thousands)</i>			<i>(%)</i>	<i>(%)</i>
Lubricant additives business segment	<u>1,817,006</u>	<u>1,774,503</u>	<u>2,063,112</u>	(2.3)	16.3
Specialty fluorochemicals business segment					
Downstream specialty fluorochemical products	289,815	1,343,050	1,702,353	363.4	26.8
Telomers and specialty fluorochemical intermediates	1,101,726	994,591	1,198,412	(9.7)	20.5
Others ⁽¹⁾	150,821	80,409	69,918	(46.7)	(13.0)
Subtotal-specialty fluorochemicals	<u>1,542,362</u>	<u>2,418,050</u>	<u>2,970,683</u>	56.8	22.9
Total	<u><u>3,359,368</u></u>	<u><u>4,192,553</u></u>	<u><u>5,033,795</u></u>	<u>24.8</u>	<u>20.1</u>

Note:

(1) Others mainly includes PTFE and HFE. Please see the section headed "Business — Business and Products — Specialty Fluorochemicals Segment — Our Specialty Fluorochemical Products."

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The volume of lubricant additives and specialty fluorochemical products we sold over the Track Record Period were as follows.

	For the year ended December 31,		
	2011	2012	2013
	<i>(tonnes)</i>		
Lubricant additives	110,757	108,660	128,233
Specialty fluorochemical products:			
Downstream specialty fluorochemical products	15	64	88
Telomers and specialty fluorochemical intermediaries	908	914	1,399
Others	1,428	1,278	1,571

Cost of sales

In our financial statements, in accordance with IFRS, we segment our revenue and cost of sales (and therefore gross profit) based on our two main businesses — lubricant additives and specialty fluorochemicals. We further present our specialty fluorochemicals revenue by downstream specialty fluorochemical products, telomer and specialty fluorochemical intermediates, and other specialty fluorochemical products.

We do not segment our cost of sales or gross profit by product within our lubricant additives segment as the manufacturing process, raw materials and type of customers are common to all our lubricant additives. With respect to our specialty fluorochemical products, while we do present our revenue by downstream specialty fluorochemical products, telomers and specialty fluorochemical intermediates, and other specialty fluorochemical products, we are not able to provide segmentation at the cost of sales (or gross profit) levels as the production lines for all of our specialty fluorochemical products are integrated.

Cost of sales is derived from the cost of manufacturing as adjusted by changes in inventories of finished goods. The cost of manufacturing primarily consists of the cost of raw materials. The cost of manufacturing also includes depreciation and amortization, direct labor and other cost of sales.

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The following table sets forth the reconciliation of our cost of manufacturing with our cost of sales by segment, for the years ended December 31, 2011, 2012 and 2013.

	For the year ended December 31,			2011-12 YoY%	2012-13 YoY%
	2011	2012	2013		
	<i>(RMB in thousands)</i>			(%)	(%)
Cost of manufacturing					
Raw materials	1,726,481	1,600,113	1,758,653	(7.3)	9.9
Depreciation and amortization	116,697	131,436	154,431	12.6	17.5
Direct labor	15,935	18,089	19,816	13.5	9.5
Others	39,176	43,997	51,942	12.3	18.1
Decrease/(increase) in inventories ⁽¹⁾	<u>(28,835)</u>	<u>(142,335)</u>	<u>1,963</u>	N/A	N/A
Cost of sales	1,869,454	1,651,300	1,986,805	(11.7)	20.3
Lubricant additives business segment:					
Cost of manufacturing					
Raw materials	1,248,307	1,250,105	1,327,477	0.1	6.2
Depreciation and amortization	87,415	89,783	103,781	2.7	15.6
Direct labor	10,900	11,936	13,365	9.5	12.0
Others	27,680	32,024	40,662	15.7	27.0
Decrease/(increase) in inventories ⁽¹⁾	<u>(13,845)</u>	<u>(85,423)</u>	<u>21,443</u>	N/A	N/A
Lubricant additives cost of sales	1,360,457	1,298,425	1,506,728	(4.6)	16.0
Specialty fluorochemicals business segment:					
Cost of manufacturing					
Raw materials	478,174	350,008	431,176	(26.8)	23.2
Depreciation and amortization	29,282	41,653	50,650	42.2	21.6
Direct labor	5,035	6,153	6,451	22.2	4.8
Others	11,496	11,973	11,280	4.1	(5.8)
Decrease/(increase) in inventories ⁽¹⁾	<u>(14,990)</u>	<u>(56,912)</u>	<u>(19,480)</u>	N/A	N/A
Specialty fluorochemical products cost of sales	<u>508,997</u>	<u>352,875</u>	<u>480,077</u>	(30.7)	36.0

Note:

(1) Decrease/(increase) in inventories include changes of work-in-progress and finished goods at the end of the period as compared to the beginning of the period.

The largest cost component of our raw materials and for the lubricant additives business is base oil, which serves as a packaging medium for our lubricant additives. With respect to the specialty fluorochemicals segment, our raw materials primarily consist of iodine, which represents the largest cost component of raw materials, and R-22, a refrigerant compound formed from fluorospar.

The table below sets forth details on our raw materials manufacturing costs during the Track Record Period.

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Raw materials			
Base oil	501,773	437,203	450,870
Iodine	113,692	151,809	168,698
R-22	95,141	51,215	68,062
Others ⁽¹⁾	1,015,875	959,886	1,071,023
Total	1,726,481	1,600,113	1,758,653

Note:

(1) primarily include polyisobutylene, paracresol, isobutylene the Company purchased for production of lubricant additives and IF₃ and SbF₅ the Company purchased for production of specialty fluorochemicals.

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The decrease of our costs of manufacturing of base oil from 2011 to 2012 was mainly caused by the decrease in the market price in 2012. Our costs of manufacturing of base oil slightly increased from 2012 to 2013, primarily because the increase in the volume of lubricant additives we produced and sold in 2013, despite a decrease in the market price of base oil in 2013. Our costs of manufacturing of iodine increased from 2011 to 2012 mainly caused by the increase in the volume of specialty fluorochemicals we produced and sold in 2012 and was also partially attributed to the increase of market price of iodine. The increase of our costs of manufacturing of iodine from 2012 to 2013 was mainly due to our increased sales of specialty fluorochemicals, despite a decrease in the market price of iodine. The decrease of our costs of manufacturing of R-22 from 2011 to 2012 was mainly caused by the decrease of market price of R-22 during the same period. Our costs of manufacturing of R-22 increased from 2012 to 2013 mainly because of the increase in our sales volume of our specialty fluorochemicals, despite the decrease in the market price of R-22 during the relevant period. Please also see the subsection headed “— Key Factors Affecting Our Results of Operations — Price of raw materials.” However, we do not expect the prices of the raw materials would have impact on the profit margins of our specialty fluorochemicals products, which generally have a high selling price.

If the cost of sales had been 20% higher/lower (being the largest change of cost of sales over the Track Record Period) and all other variables were held constant, our gross profit in 2011, 2012 and 2013 would have decreased/increased by approximately RMB373.9 million, RMB330.3 million and RMB397.4 million, respectively.

According to Frost & Sullivan, the market price of base oil in China, the largest component of our cost of sales for our lubricant additives segment and our overall cost of sales during the Track Record Period, fluctuated during the Track Record Period, primarily due to general economic conditions. If our purchase price of base oil had been 26.1% higher/lower (being the largest change of market price of base oil in China over the Track Record Period, according to Frost & Sullivan) and all other variables remained constant, our gross profit or net profit in 2011, 2012 and 2013 would have decreased/increased by approximately RMB131.0 million, RMB114.1 million and RMB117.7 million respectively. In addition, if our purchase price of base oil had been 15% higher/lower (being the largest change of our purchasing price of base oil over the Track Record Period) and all other variables remained constant, our gross profit or net profit in 2011, 2012 and 2013 would have decreased/increased by approximately RMB75.3 million, RMB65.6 million and RMB67.6 million, respectively.

Gross Profit

Gross profit equals revenue less cost of sales. Our gross profit margin increased from 44.4% for the year ended December 31, 2011 to 60.6% for the year ended December 31, 2012, and was 60.5% for the year ended December 31, 2013.

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The following table sets forth our gross profit and gross margin by segment, for the years ended December 31, 2011, 2012 and 2013.

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands, except for percentage)</i>		
Gross profit	1,489,914	2,541,253	3,046,990
Gross margin (%)	44.4	60.6	60.5
Lubricant additives business segment:			
Gross profit	456,549	476,078	556,384
Gross margin (%)	25.1	26.8	27.0
Specialty fluorochemicals business segment:			
Gross profit	1,033,365	2,065,175	2,490,606
Gross margin (%)	67.0	85.4	83.8

The increase in our overall gross margin during the Track Record Period was mainly caused by the increase in the percentage of specialty fluorochemicals revenue relative to total revenue, as our specialty fluorochemicals generally achieved higher gross margins than our lubricant additives. The gross margin of our lubricant additives segment remained relatively stable during the Track Record Period. The increase in gross margin of our specialty fluorochemicals segment was mainly attributed to our increased sales of higher revenue generating downstream fluorochemical products, such as anti-mar/anti-reflective coatings and surfactant products. For a further description of the factors that contributed to our increase in gross margins, see “—Results of Operations” and “—Key Factors Affecting Our Results of Operations—Segment mix.”

Other income

Our other income mainly includes imputed interest income on the amount due to us from Jinzhou Heisenberg for the acquisition of our marine fuel assets, government grants, recognition of deferred government grants and interest income on bank deposits and bank balances.

On December 31, 2011, Jinzhou DPF-TH, a wholly owned subsidiary of ours, sold its marine fuel assets to Jinzhou Heisenberg, a related party controlled by our ultimate controlling shareholders, for RMB938.5 million, which was fully settled in March 2014. The sales proceeds were approximately equal to the then carrying amount of the related net assets. The amount due from Jinzhou Heisenberg was measured at fair value using the discounted cash flow method by applying an effective interest rate of 20% per year and the expected repayment term of two years at initial recognition. Accordingly, we recorded a negative fair value adjustment of RMB280.7 million in our income statement for the year ended December 31, 2011. In 2012 and 2013, we realized other income reflecting the imputed interest income resulting from applying a 20% rate on the amounts owed to us on our balance sheet at each year end based on the expected repayment term. For further information about the sale of our marine fuel assets, see “Relationship with Our Controlling Shareholders—Deed of Non-competition”.

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We also realized other income from government grants and interest income on bank deposits. We sometimes receive government grants to support our business generally, and at other times for specific projects, such as the building or expansion of certain manufacturing facilities. We fully recognize grants to generally support our business as other income in the period they are granted, while we defer grants relating to specific assets or projects over the life of the related asset or project. The following table sets forth details of our other income during the Track Record Period.

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Government grants	2,560	1,719	7,703
Recognition of deferred government grants	2,813	2,813	2,813
Interest income on bank deposits and bank balances	7,799	7,545	20,211
Imputed interest income on amount due from a related party	—	134,292	146,375
Total	<u>13,172</u>	<u>146,369</u>	<u>177,102</u>

Other gains and losses

Other gains and losses primarily includes a negative fair value adjustment from the disposal of marine fuel assets in 2011 and net foreign exchange gains from the retranslation of the shareholder's loan from Driven Goal. The loan is U.S. dollar denominated and therefore the appreciation of the Renminbi against the U.S. dollar from 2011 to 2013 resulted in net foreign exchange gains. For a further description of our shareholder's loan from Driven Goal, see "— Related Party Transactions — Shareholder's loans". The following table sets forth details of our other gains and losses during the Track Record Period.

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Net exchange gain	71,082	2,941	36,859
Loss on disposal of property, plant and equipment	(6,575)	(474)	(197)
Loss on disposal of prepaid lease payments	—	(42)	—
Reversal of allowance on doubtful receivables, net	—	316	34
Net gain (loss) on disposal of testing products and others	1,345	(1,071)	1,144
Loss on disposal of marine fuel assets	(283,074)	—	—
Others	132	(188)	(635)
Total	<u>(217,090)</u>	<u>1,482</u>	<u>37,205</u>

During the Track Record Period, we did not adopt any hedging policy for managing foreign exchange risks. In the future, we may adopt measures to hedge these risks as we expand our overseas sales. For instance, as we steadily expand our overseas business and sales through our distributor in U.S., we may maintain certain amounts of cash denominated in foreign currency to settle the relevant costs that may be incurred overseas that are denominated in the relevant foreign currency, so that we could mitigate risks associated with exchange loss. Please also see the section headed "Risk Factors — We are exposed to risks associated with fluctuations in exchange rates."

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Selling and distribution expenses

Selling and distribution expenses consist primarily of freight and packing costs, export charges and employee benefits. Freight and packing costs relate to the transporting of finished goods to the Jinzhou port. Export charges reflect our direct sales outside of the PRC, primarily for our lubricant additives. Employee benefits relate to the salaries and related benefits of our sales force.

The following table sets forth details of our selling and distribution expenses during the Track Record Period.

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Freight costs and packing	5,176	7,047	7,076
Export charges	309	549	3,787
Employee benefits	453	468	424
Entertainment	146	259	364
Transportation	125	128	178
Others ⁽¹⁾	967	371	247
Total	<u>7,176</u>	<u>8,822</u>	<u>12,076</u>

Note:

(1) Others primarily includes exhibition, telecommunication, material and consumable and office supply expenses.

Administrative expenses

Administrative expenses mainly include employee benefits, amortization, depreciation and land use levies. Employee benefits include salaries of our administrative employees as well as their employee benefits. Amortization relates to land use rights and intangible assets while depreciation mainly relates to improvements to our administrative office, including expansion of our corporate facilities in Bawang Village. Land use levies relate to the land near the Jinzhou port for the Group II and III base oil plant which is still under construction.

The following table sets forth details of our administrative expenses during the Track Record Period.

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Employee benefits	23,657	26,291	25,250
Amortization	6,122	4,478	2,716
Depreciation	4,730	6,959	11,573
Land use levies	3,329	2,572	11,026
Utility expenses	2,797	3,240	3,148
Material and consumable expenses	2,887	2,815	2,136
Others ⁽¹⁾	23,701	18,194	19,159
Total	<u>67,223</u>	<u>64,549</u>	<u>75,008</u>

Note:

(1) Other administrative expenses primarily includes consulting fees, repair and maintenance, property insurance, office, travel, rent and audit expenses.

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Other expenses

Other expenses consists of professional fee expenses in relation to the proposed listing of our shares on the London Stock Exchange in 2011 as well as R&D expenses. The professional fee expenses were only incurred in 2011 and totaled RMB21.1 million. For a further description of our proposed London listing, please see the section headed “Our History and Corporate Structure”. R&D expenses consist of the salaries of our key R&D staff, as well as expenses relating to laboratory testing materials.

The following table sets forth details of our other expenses during the Track Record Period.

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
R&D expenses	8,329	6,972	10,572
Professional fee expense	21,078	—	—
Total	29,407	6,972	10,572

Finance costs

Finance costs primarily include interest on bank borrowings, which increased during the Track Record Period mainly due to increased levels of short-term borrowing. Our short-term borrowings were RMB335.9 million, RMB985.9 million and RMB1,281.0 million at December 31, 2011, 2012 and 2013, respectively, which we primarily used to fund working capital.

Income tax expenses

Income tax expenses comprise current tax for the period as well as the change in provisions for deferred tax relating to the statements of comprehensive income. We are subject to tax in the PRC. Our two operating subsidiaries, FHT and Jinzhou DPF-TH, enjoyed preferential tax rates of 15% as New and High Technical Enterprises (as compared to the PRC statutory 25% rate). The status of these subsidiaries as New and High Technical Enterprises is reviewed by related PRC governing authorities every three years. The related PRC governing authorities will review the preferential status of FHT in 2015, and Jinzhou DPF-TH in 2014. We intend to submit applications to renew the preferential tax status of Jinzhou DPF-TH as soon as practicable after the relevant PRC authorities start to receive and review relevant applications. As advised by our PRC legal adviser, based on the duly enquiry of our PRC legal adviser and according to the relevant PRC laws and regulations, there is no material legal impediment for us to renew this preferential tax status. Please also refer to the section headed “Risk Factors — Any change in the preferential tax treatment we currently enjoy in the PRC may have an adverse impact on our results of operations.” In addition, we plan to apply to become a Hong Kong resident, and if successful, the withholding tax on dividends from our PRC subsidiaries will decrease from 10% to 5%. There is no assurance that our preferential tax rates in the PRC will be extended or that we will become a Hong Kong resident for tax purposes. We are currently not a party to any tax dispute.

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RESULTS OF OPERATIONS

Year ended December 31, 2013 compared with year ended December 31, 2012

Revenue

Our consolidated revenue for the year ended December 31, 2013 was RMB5,033.8 million, as compared to RMB4,192.6 million for the year ended December 31, 2012, an increase of RMB841.2 million, or 20.1%.

Revenue by business segment

Lubricant additives business segment. Revenue from the lubricant additives business segment for the year ended December 31, 2013 was RMB2,063.1 million, as compared to RMB1,774.5 million for the year ended December 31, 2012, an increase of RMB288.6 million, or 16.3%. The increase in our revenue from lubricant additives was due primarily to an increase in capacity of our manufacturing facilities, increased exports and lower levels of sales in 2012 due to inclement weather in Liaoning Province. In 2013, we sold 128,233 tonnes of lubricant additives at an average sales price of about RMB16,100 per tonne, while in 2012 we sold 108,660 tonnes of lubricant additives at an average sales price of about RMB16,300 per tonne. We were able to sell a higher volume of lubricant additives in part because we increased the designed production capacity of our plants from 138,000 tonnes per year at December 31, 2012 to 199,000 tonnes per year at December 31, 2013. The increase in our revenue from lubricant additives in 2013 also reflected an increase in exports resulting from enhanced marketing efforts to customers in Southeast Asia, the Middle East and Europe. In addition, our sales of lubricant additives was negatively impacted in 2012 by inclement winter weather in Liaoning Province, which resulted in a delay in the delivery of finished goods at year end 2012.

Specialty fluorochemicals business segment. Revenue from the specialty fluorochemicals business segment for the year ended December 31, 2013 was RMB2,970.7 million, as compared to RMB2,418.1 million for the year ended December 31, 2012, an increase of RMB552.6 million or 22.9%. Our revenue from downstream specialty fluorochemical products increased due to increased sales of certain high revenue generating products we introduced in 2013, while revenue from telomers and specialty fluorochemical intermediaries also increased because we increased the designed production capacity of our TI and TEI plants by 2,400 tonnes in 2013. Revenue from other specialty fluorochemicals decreased due to a decrease in the average sales price per tonne.

Downstream specialty fluorochemical products. In 2013, we sold 88 tonnes of downstream specialty fluorochemical products at an average selling price of about RMB19.3 million per tonne, while in 2012 we sold 64 tonnes at an average selling price of about RMB21.0 million per tonne. Due to the increase in volume of downstream specialty fluorochemical products we sold in 2013, our revenue from those products increased by RMB359.3 million, or 26.8%, driven by the seven new products we introduced in the second half of 2013, such as anti-mar/anti-reflective coatings for smartphones and surfactants, as well as the increased sales in 2013 of the four new products we introduced in the second half of 2011.

Telomers and specialty fluorochemical intermediates. In 2013, we sold 1,399 tonnes of telomers and specialty fluorochemical intermediates at an average selling price of about RMB0.9 million per tonne, as compared to 914 tonnes in 2012 at an average selling price of about RMB1.1 million per tonne. Due to the significant increase in the volume of telomers and specialty

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fluorochemical intermediates we sold in 2013, our revenue increased by RMB203.8 million, 20.5%, mainly due to higher volumes of TI and TEI based in part of the expansion to our Fuxin plant which commenced operation in November 2013 and increased our designed production capacity for TI and TEI by 2,400 tonnes. This increase was partially offset by the decrease in the average selling price of telomers and specialty fluorochemical intermediates, due in part to the decrease in the price of one of our key raw materials, iodine, which was partially reflected in our selling price.

Others. In 2013, we sold 1,571 tonnes of other specialty fluorochemicals at an average selling price of about RMB44,500 per tonne, while in 2012 we sold 1,278 tonnes at an average selling price of about RMB62,900 per tonne. Due to the significant decrease in average selling price, and despite the increase in volume of other specialty fluorochemicals that we sold, our revenue from other specialty fluorochemicals decreased by RMB10.5 million, or 13.0%. The decrease in the average selling price was due in part to the decrease in the price of one of our key raw materials, iodine, which was partially reflected in our selling price, while the increase in volume was partially due to the 800 tonne increase in the designed capacity of our HFE manufacturing facility.

Cost of sales

Cost of sales for the year ended December 31, 2013 was RMB1,986.8 million, as compared to RMB1,651.3 million for the year ended December 31, 2012, an increase of RMB335.5 million or 20.3% which was in line with the growth rate of our revenue in 2013. In 2012, our cost of sales represented 39.4% of our revenue, while in 2013, it represented 39.5% of our revenue. In general, cost of sales represents a higher percentage of our lubricant additives revenue than our specialty fluorochemicals revenue.

Cost of sales by business segment

Lubricant additives business segment. Cost of sales for the lubricant additives business segment for the year ended December 31, 2013 was RMB1,506.7 million, as compared to RMB1,298.4 million for the year ended December 31, 2012, an increase of RMB208.3 million, or 16.0%. Lubricant additives cost of sales represented 73.2% of our lubricant additives revenue in 2012 and 73.0% in 2013. Cost of sales is derived from the cost of manufacturing as adjusted for changes in inventories. Cost of manufacturing primarily consists of cost of raw materials. Cost of manufacturing also includes depreciation and amortization, direct labor and other costs of sales. In 2013, the cost of manufacturing of raw materials for our lubricant additives segment was RMB1,323.2 million, as compared to RMB1,250.1 million in 2012, an increase of RMB73.1 million, or 5.8%, due to an increase in the volume of lubricant additives we sold, despite a decrease in the price of base oil, our largest cost component for lubricant additives. For a discussion regarding the decline in the market price of base oil in China from 2012 to 2013, see “— Key Factors Affecting Our Results of Operations — Price of raw materials”. Furthermore, in 2013 we recognized increased costs for depreciation and amortization of RMB14.0 million due to the new manufacturing facilities in Bawang Village and RMB8.6 million for other costs of sales due to the cost of utilities related to our production processes.

Specialty fluorochemicals business segment. Cost of sales for the specialty fluorochemicals business segment for the year ended December 31, 2013 was RMB480.1 million, as compared to RMB352.9 million for the year ended December 31, 2012, an increase of RMB127.2 million or 36.0%. In 2012, our cost of sales for specialty fluorochemical products represented 14.6% of specialty fluorochemicals revenue, as compared to 16.2% in 2013. Cost of sales is derived from the cost of

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manufacturing as adjusted for changes in inventories. Cost of manufacturing primarily consists of raw materials cost. Cost of manufacturing also includes depreciation and amortization, direct labor and other costs of sales. In 2013, the cost of manufacturing of raw materials for specialty fluorochemical products was RMB428.6 million, as compared to RMB350.0 million in 2012, an increase of RMB78.6 million, or 22.5%. Our cost of sales for specialty fluorochemical products increased because we sold 24 more tonnes of downstream specialty fluorochemical products, 485 more tonnes of telomers and specialty fluorochemicals intermediates and 293 more tonnes of other specialty fluorochemical products. Specifically, we increased the volume of telomers and specialty fluorochemicals intermediates, such as TI and TEI, as we expanded our designed production capacity of TI and TEI in November 2013. This increase in cost of sales was partially offset by a decrease in the price of iodine, one of our key raw materials for this segment. For a discussion regarding the decline in the international price of iodine from 2012 to 2013, see “— Key Factors Affecting Our Results of Operations — Price of raw materials”. Depreciation and amortization increased by RMB9.0 million due to the expansion of our Fuxin plant in 2013.

Gross profit

Our total gross profit for the year ended December 31, 2013 was RMB3,047.0 million, as compared to RMB2,541.3 million for the year ended December 31, 2012, an increase of RMB505.7 million, or 19.9%. Our overall gross margin remained stable (60.6% in 2012 and 60.5% in 2013). Our gross margin for our lubricant additives business segment remained stable (26.8% in 2012 to 27.0% in 2013). Our gross margin for our specialty fluorochemicals business segment decreased slightly from 85.4% in 2012 to 83.8% in 2013 primarily due to changes in our product mix including the introduction of seven new downstream specialty fluorochemicals products in the second half of 2013 and the increase in sales of upstream telomers and specialty fluorochemical intermediates such as TI and TEI in 2013.

Other income

Other income for the year ended December 31, 2013 was RMB177.1 million, as compared to RMB146.4 million for the year ended December 31, 2012, an increase of RMB30.7 million, or 21.0%. The primary reasons for the increase in other income was a RMB12.7 million increase in interest income on bank deposits and bank balances, a RMB12.1 million increase in imputed interest income from the amounts due to us from Jinzhou Heisenberg with respect to the sale of our marine fuel assets and a RMB6.0 million increase in government grants. The increase in interest income was due to interest income on cash deposits, including cash generated by our operations and borrowed for working capital, prior to the application of those loan proceeds. The imputed interest at a rate of 20% per year with respect to the amounts due from Jinzhou Heisenberg is a non-cash accounting item and is further described in “— Principal Components of Our Income Statement — Other income”. Finally, other income increased in 2013 due to an increase in income from government grants as we were awarded a one-time grant of RMB6.9 million in October 2013 to North China Petrochemical, one of our subsidiaries, to encourage its growth and development.

Other gains and losses

We recognized a gain of RMB37.2 million for the year ended December 31, 2013, as compared to a gain of RMB1.5 million for the year ended December 31, 2012, principally due to an increase in net exchange gains from RMB2.9 million in 2012 to RMB36.9 million in 2013, which resulted from

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the re-translation of our U.S. dollar-denominated shareholder's loan with Driven Goal. As the Renminbi appreciated against the U.S. dollar, the loan in Renminbi terms decreased, resulting in a net exchange gain.

Selling and distribution expenses

Selling and distribution expenses in 2013 were RMB12.1 million, as compared to RMB8.8 million in 2012, an increase of RMB3.3 million, or 36.9%, primarily due to an increase of RMB3.3 million in export charges, from RMB0.5 million in 2012 to RMB3.8 million in 2013. In 2013, we increased our international sales of lubricant additives to Southeast Asia, the Middle East and Europe.

Administrative expenses

Administrative expenses in 2013 were RMB75.0 million, as compared to RMB64.5 million in 2012, an increase of RMB10.5 million, or 16.2%. This increase was principally due to depreciation and land use levy expenses. Our level of depreciation expenses increased by RMB4.6 million, mainly reflecting the expansion of the administrative facilities in Bawang Village. In addition, land use levy expenses increased by RMB8.5 million in connection with obtaining the certificates of land use rights acquired by us.

Other expenses

Other expenses in 2013 were RMB10.6 million compared to RMB7.0 million in 2012, an increase of RMB3.6 million, or 51.6%. Other expenses in 2013 and 2012 consisted of R&D expenses, and increased mainly due to a RMB2.0 million increase in the salaries of our key R&D staff in October 2012, as well as expenses relating to laboratory testing materials in 2013.

Finance costs

Finance costs for the year ended December 31, 2013 were RMB63.2 million, as compared to RMB55.1 million for the year ended December 31, 2012, an increase of RMB8.1 million, or 14.8%. This increase was principally due to an increase in interest expense relating to our short-term borrowings, which increased from RMB985.9 million at December 31, 2012 to RMB1,281.0 million at December 31, 2013. This increase was partially offset by a decrease in long-term borrowings, from RMB69.8 million at December 31, 2012 to RMB43.1 million at December 31, 2013, as we paid down some of the outstanding principal on our long-term loans in accordance with their scheduled amortization in 2013.

Profit before income taxation

As a result of the factors described above, profit before income tax for the year ended December 31, 2013 was RMB3,100.4 million, as compared to RMB2,553.7 million for the year ended December 31, 2012, an increase of RMB546.7 million, or 21.4%.

Income tax expenses

Our income tax expense for the year ended December 31, 2013 was RMB474.2 million, as compared to RMB363.7 million in 2012, an increase of RMB110.5 million, or 30.4%, primarily due to

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an increase in taxable income between 2012 and 2013 and deferred tax of RMB40 million that is associated with withholding tax on undistributed profit of our subsidiaries recognized in 2013 that was not recognized in 2012, partially offset by a RMB291.1 million tax credit in 2013 as compared to a RMB241.5 million tax credit in 2012 in relation to preferential tax rates applied to our subsidiaries that are certified as a New and High Technical Enterprises. Our effective tax rate, which is based on our pre-tax profit which includes taxable and non-taxable amounts, increased from 14.2% for the year ended December 31, 2012 to 15.3% for the year ended December 31, 2013. For a further description of our preferential tax status, please see the section headed “— Principal Components of Our Income Statement — Income tax expenses”.

Profit and total comprehensive income for the year attributable to the owners of the Company

As a result of the foregoing, profit for the year ended December 31, 2013 was RMB2,626.2 million, as compared to RMB2,190.0 million for the year ended December 31, 2012, an increase of RMB436.3 million, or 19.9%. Our net profit margin remained stable at approximately 52.2% in both 2013 and 2012.

Year ended December 31, 2012 compared with year ended December 31, 2011

Revenue

Our consolidated revenue for the year ended December 31, 2012 was RMB4,192.6 million, as compared to RMB3,359.4 million for the year ended December 31, 2011, an increase of RMB833.2 million, or 24.8%.

Revenue by business segment

Lubricant additives business segment. Revenue from the lubricant additives business segment for the year ended December 31, 2012 was RMB1,774.5 million, as compared to RMB1,817.0 million for the year ended December 31, 2011, a decrease of RMB42.5 million, or 2.3%. In 2012, we sold 108,660 tonnes of lubricant additives at an average sales price of about RMB16,300 per tonne, while in 2011 we sold 110,757 tonne of lubricant additives at an average sales price of about RMB16,400 per tonne. This decrease in volume was primarily due to inclement winter weather in Liaoning Province at year-end 2012, which affected transportation of finished lubricant additive goods. This decrease was partially offset by an increase in export sales in 2012, as Jinzhou DPF-TH acquired an export license in July 2011.

Specialty fluorochemicals business segment. Revenue from the specialty fluorochemicals business segment for the year ended December 31, 2012 was RMB2,418.1 million, as compared to RMB1,542.4 million for the year ended December 31, 2011, an increase of RMB875.7 million or 56.8%. Our revenue from downstream specialty fluorochemical products increased due to increased sales of high revenue generating products we introduced in the second half of 2011, while revenue from telomers and specialty fluorochemical intermediates and other specialty fluorochemicals decreased.

Downstream specialty fluorochemical products. In 2012, we sold 64 tonnes of downstream specialty fluorochemical products at an average selling price of about RMB21.0 million per tonne, while in 2011 we sold 15 tonnes at an average selling price of about RMB20.0 million per tonne. Due to the significant increase in the volume of downstream specialty fluorochemical products we sold in 2012, our revenue from these products increased by RMB1,053.2 million, mainly due to the revenue contributions from the four new products we introduced in the second half of 2011 for the full year 2012.

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Telomers and specialty fluorochemical intermediates. In 2012, we sold 914 tonnes of telomers and other specialty fluorochemical intermediates at an average selling price of about RMB1.1 million, as compared to 908 tonnes at an average selling price of about RMB1.2 million per tonne in 2011. Due to the decrease in average selling price, our revenue from telomers and specialty fluorochemical intermediates decreased by RMB107.1 million, due to the decrease in the price of our two main materials for telomers and specialty fluorochemical intermediates, R-22 and iodine, which was partially reflected in our selling price.

Others. In 2012, we sold 1,278 tonnes of other specialty fluorochemical products at an average selling price of RMB62,900 per tonne, while in 2011 we sold 1,428 tonnes at an average selling price of RMB105,600 per tonne. As both the volume and average selling price of other specialty fluorochemical products decreased, our revenue from these products decreased by RMB70.4 million, due to the decrease in the price of our two main raw materials for telomers and specialty fluorochemical intermediates, R-22 and iodine, which was partially reflected in our selling price.

Cost of sales

Cost of sales for the year ended December 31, 2012 was RMB1,651.3 million, as compared to RMB1,869.5 million for the year ended December 31, 2011, a decrease of RMB218.2 million or 11.7%. As a percentage of revenue, cost of sales decreased from 55.6% to 39.4%, due to decreases in the costs of sales in both our lubricant additives and specialty fluorochemicals business segments.

Cost of sales by business segment

Lubricant additives business segment. Cost of sales for the lubricant additives business segment for the year ended December 31, 2012 was RMB1,298.4 million, as compared to RMB1,360.5 million for the year ended December 31, 2011, a decrease of RMB62.1 million, or 4.6%. As a percentage of revenue, the cost of sales for lubricant additives was 74.9% in 2011 and 73.2% in 2012. Cost of sales is derived from the cost of manufacturing as adjusted for changes in inventories. Cost of manufacturing primarily consists of the cost of raw materials. The cost of manufacturing also includes depreciation and amortization, direct labor and other cost of sales. In 2012, the cost of manufacturing of raw materials for our lubricant additives segment was RMB1,250.1 million, as compared to RMB1,248.3 in 2011, an increase of RMB1.8 million, or 0.1%. The increase in our cost of sales in 2012 was due to the increase in the volume of lubricant additives we produced and sold in 2012.

Specialty fluorochemicals business segment. Cost of sales from the specialty fluorochemicals business segment for the year ended December 31, 2012 was RMB352.9 million, as compared to RMB509.0 million for the year ended December 31, 2011, a decrease of RMB156.1 million or 30.7%. As a percentage of revenue, the cost of sales for specialty fluorochemicals was 33.0% in 2011 and 14.6% in 2012. Cost of sales is divided from the cost of manufacturing as adjusted for changes in inventories. Cost of manufacturing primarily consists of raw materials cost. The cost of manufacturing also includes depreciation and amortization, direct labor and other cost of sales. In 2012, the cost of manufacturing of raw materials for our specialty fluorochemicals business segment was RMB350.0 million, as compared to RMB478.2 million in 2011, a decrease of RMB128.2 million, or 26.8%. The decrease in the cost of sales for our specialty fluorochemicals segment from 2011 to 2012, especially in light of the 56.8% increase in our revenue from 2011 to 2012 in that segment, was due to two main factors. First, the cost of raw materials, primarily iodine and R-22, decreased due to market pricing, which reduced our cost of sales. For a discussion regarding the decline in the international

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price of iodine and the market price of R-22 in China from 2011 to 2012, see “— Key Factors Affecting Our Results of Operations — Price of raw materials”. Second, until May 2011, we purchased TI from third parties, but after May 2011 and for the full year 2012, we manufactured TI, which further lowered our manufacturing cost. This decrease in our cost of sales was partially offset by an increase of RMB12.4 million in depreciation and amortization expenses from 2011 to 2012 due to the increase in our amortization of intangible assets, mostly relating to technical know-how, in 2012 as further described in “— Key Factors Affecting our Results of Operations — Development of new products”.

Gross profit

Our gross profit for the year ended December 31, 2012 was RMB2,541.3 million, as compared to RMB1,489.9 million for the year ended December 31, 2011, an increase of RMB1,051.4 million, or 70.6%. Our overall gross margin increased from 44.4% in 2011 to 60.6% in 2012 which was mainly due to the higher revenue, contribution from the higher margin specialty fluorochemicals segment. Our gross margin for our lubricant additives business segment increased from 25.1% in 2011 to 26.8% in 2012 primarily due to the decrease in the prices of raw materials, including base oil. Our gross margin for our specialty fluorochemicals business segment increased from 67.0% in 2011 to 85.4% in 2012 primarily due to a decrease in raw material costs, including iodine and R-22 as well as our in-house manufacturing of TI from May 2011 (and therefore for the full year 2012), and the ability to sell our four new higher revenue generating downstream specialty fluorochemical products for the full year 2012 that we introduced in the second half of 2011, resulting in an increase in gross profit in 2012.

Other income

Other income for the year ended December 31, 2012 was RMB146.4 million, as compared to RMB13.2 million for the year ended December 31, 2011. This increase was principally due to RMB134.3 million of imputed interest with respect to amounts due to us from Jinzhou Heisenberg with respect to the sale of our marine fuel assets. The imputed interest reflected a rate of 20% per year in 2012 based on the present value of the amount due to us. For a further discussion of this non-cash accounting item, see “— Principal Components of Our Income Statement — Other income”. As we sold the assets at year-end 2011, we did not realize imputed interest in 2011.

Other gains and losses

With respect to other gains and losses, we recognized a gain of RMB1.5 million for the year ended December 31, 2012, and recorded a loss of RMB217.1 million for the year ended December 31, 2011. The loss in 2011 was principally due to a loss of RMB283.1 million on disposal of marine fuel assets recognized in 2011 (no amounts relating to this disposal were recorded in 2012) and a loss of RMB6.6 million on the disposal of property, plant and equipment (as compared to RMB0.5 million in 2012. This loss was partially offset by a net exchange gain of RMB71.1 million in 2011 (as compared to RMB2.9 million in 2012) which resulted from the re-translation of the U.S. dollar denominated shareholder’s loan from Driven Goal, due to the more pronounced appreciation of the Renminbi against the U.S. dollar in 2011 than 2012. For further information regarding our shareholder’s loan from Driven Goal, see “— Related party transactions”.

Selling and distribution expenses

Selling and distribution expenses in 2012 were RMB8.8 million, as compared to RMB7.2 million in 2011, an increase of RMB1.6 million, or 22.9%, primarily due to an increase of RMB1.9

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million in freight costs and packing expenses related to transport of finished goods to the port in Jinzhou. These expenses increased as we increased our level of exports and many of those overseas customers asked us to transport goods to ports in China in 2012.

Administrative expenses

Administrative expenses in 2012 were RMB64.5 million, as compared to RMB67.2 million in 2011, a decrease of RMB2.7 million, or 4.0%. The decrease in our administrative expenses from 2011 to 2012 was primarily a result of a decrease in other administrative expenses of RMB5.5 million which was partially offset by an increase in employee benefits of RMB2.6 million and in depreciation of RMB2.2 million. The decrease in other administrative expenses related to other administrative expenses incurred in 2011 for the payment of technical consulting services relating to lubricant additives (RMB3.5 million) and an audit fee with respect to interim financial information in 2011 (RMB1.5 million). The increase in depreciation and employee benefits reflects the expansion of our Fuxin plant in and the building of our employee dormitory in 2012, both of which also resulted in additional administrative employee-related costs.

Other expenses

Other expenses for the year ended December 31, 2012 were RMB7.0 million, as compared to RMB29.4 million for the year ended December 31, 2011. Other expenses consisted of a professional fee expense in 2011 and R&D expenses in 2011 and 2012. In 2011, RMB21.1 million of the other expenses we incurred was due to a professional fee expense in relation to the proposed listing of our shares on the London Stock Exchange in 2011. For a further description of our proposed London listing in 2011, please see the section headed “Our History and Corporate Structure”. R&D expenses decreased by RMB1.4 million due to expenses relating to lab testing materials incurred in 2011.

Finance costs

Finance costs for the year ended December 31, 2012 were RMB55.1 million, as compared to RMB18.0 million for the year ended December 31, 2011. This increase was principally due to an increase in interest expense relating to our short-term borrowings, which increased from RMB335.9 million as of December 31, 2011 to RMB985.9 million as of December 31, 2012, and partially offset by a decrease in interest expense relating to long-term borrowings, as our long-term debt decreased from RMB97.8 million at year-end 2011 to RMB69.8 million at year-end 2012 due to scheduled amortization payments.

Profit before income taxation

As a result of the foregoing, profit before income tax for the year ended December 31, 2012 was RMB2,553.7 million, as compared to RMB1,164.2 million for the year ended December 31, 2011, an increase of RMB1,389.4 million, or 119.3%.

Income tax expenses

Our income tax expenses for the year ended December 31, 2012 were RMB363.7 million, as compared to RMB216.1 million in 2011, an increase of RMB147.6 million, or 68.3%, primarily due to an increase in taxable income and the effect of a RMB76.0 million expense mainly relating to the loss resulting from the sale of our marine fuel assets that was not deductible for tax purposes in 2011,

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which was partially offset by a RMB241.5 million tax credit in 2012 as compared to a RMB134.0 million tax credit in 2011 in relation to preferential tax rates applied to our operating subsidiaries that are certified as New and High Technical Enterprises and a RMB18.5 million increase in the amount of profit before taxation not subject to tax relating to the exchange gain arising from the re-translation of the amount of Direct Goal shareholder's loans denominated in U.S. dollars due to the more pronounced appreciation of the Renminbi against the U.S. dollar. For a further description of our preferential tax status, please see the section “— Principal Components of Our Income Statement — Income tax expenses.” Our effective tax rate, which is based on our pre-tax profit which includes taxable and non-taxable amounts, decreased from 18.6% for the year ended December 31, 2011 to 14.2% for the year ended December 31, 2012.

Profit and total comprehensive income for the year attributable to the owners of the Company

Profit for the year ended December 31, 2012 was RMB2,190.0 million, as compared to RMB948.1 million for the year ended December 31, 2011, an increase of RMB1,241.9 million, or 131.0%, and our net profit margin increased from 28.2% in 2011 to 52.2% in 2012. The increase was primarily caused by the fact that in 2012, we increased sales of higher revenue generating downstream specialty fluorochemical products that we introduced in the second half of 2011, which contributed a higher proportion of our revenue than that in 2011. In addition, the increase in our net profit in 2012 was also attributed, in part, to the increase in our other income in 2012, as a result of the RMB134.3 million of imputed interest with respect to amounts due to us from Jinzhou Heisenberg with respect to the sale of our marine fuel assets. For a further discussion of this non-cash accounting item, see “— Principal Components of Our Income Statement — Other income”.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of funding during the Track Record Period included cash from operations, short-term and long-term bank borrowings and shareholder's loans. We intend to repay our outstanding shareholder's loans with the net proceeds from the Global Offering. Please see the section headed “Future Plans and Use of Proceeds”.

As of December 31, 2013, we had short-term borrowings of RMB1,281.0 million, long-term borrowings of RMB43.1 million, shareholder's loans of RMB1,234.9 million, cash and cash equivalents of RMB984.8 million and bank deposits with maturity of over three months of RMB456.0 million, resulting in net borrowings of RMB1,118.2 million.

As of April 30, 2014, the Company has undrawn bank credit lines of RMB374.4 million.

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Net current assets/(liabilities)

The following table sets forth current assets and current liabilities as of the dates indicated:

	As of December 31,			As of
	2011	2012	2013	April 30, 2014
	<i>(RMB in thousands)</i>			
Current assets				
Inventories	157,609	321,639	305,583	322,958
Trade and bills receivables	71,965	54,992	138,253	111,028
Other receivables, deposits and prepayments	129,155	62,976	46,444	97,046
Amounts due from related parties	255,893	333,802	813,744	—
Income tax recoverable	3,151	4,257	10,080	—
Value-added tax recoverable	2,163	37,498	195,917	179,163
Prepaid lease payments	17,859	17,764	20,944	21,778
Bank deposits	15,000	556,000	456,000	1,456,328
Cash and cash equivalents	425,717	254,634	984,832	706,282
Total current assets	<u>1,078,512</u>	<u>1,643,562</u>	<u>2,971,797</u>	<u>2,894,583</u>
Current liabilities				
Trade and other payables	149,518	143,365	166,512	198,842
Amounts due to related parties	18,903	—	172,473	33,067
Income tax payable	4,502	3,258	7,380	85,337
Bank borrowings-due within one year	335,934	985,866	1,281,030	2,139,813
Dividends payable	2,237	2,237	2,237	—
Shareholder's loans	1,301,362	1,270,506	1,234,862	1,241,898
Total current liabilities	<u>1,812,456</u>	<u>2,405,232</u>	<u>2,864,494</u>	<u>3,698,957</u>
Net current assets/(liabilities)	<u>(733,944)</u>	<u>(761,670)</u>	<u>107,303</u>	<u>(804,374)</u>

Our net current assets/(liabilities) represent the difference between our total current assets and total current liabilities. As of December 31, 2011, 2012 and 2013, we had net current liabilities of RMB733.9 million and RMB761.7 million and net current assets of RMB107.3 million, respectively. Our net current liability position increased from RMB733.9 million as of December 31, 2011 to RMB761.7 million as of December 31, 2012 due to an increase in short-term bank borrowings to fund our working capital, offset by an increase in bank deposits due to both increases in cash generated from operations as well as proceeds of our loan financings prior to being applied. This net current liability at December 31, 2012 became a net current asset position of RMB107.3 million as of December 31, 2013 due to an increase in cash and cash equivalents due to an increase in operating cash flow as well as amounts due from Jinzhou Heisenberg, a related party, relating to the sale of our marine fuel assets, offset by an increase in short-term bank borrowings and amounts due to related parties as described in “— Related Party Transactions”. Please also see the section headed “Risk Factors — Risks Relating to Our Business — We recorded net current liabilities during the Track Record Period and may record net current liabilities in the future”.

The decrease in our current assets from December 31, 2013 to April 30, 2014 was mainly caused by the decrease in cash and cash equivalents as we increased investment to fund our expansion projects, including the Group II and III base oils project and fluorinated lubricant oil project in Jinzhou and the TFE project with an expected design production capacity of 5,000 tonnes per year at Fuxin. The increase in our current liabilities from December 31, 2013 to April 30, 2014 was primarily the result of the increase in the bank borrowings due within one year among which we drew down on a

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facility in the amount of US\$136.9 million on April 4, 2014 to pay the dividend of approximately RMB810.0 million (net of withholding tax) to our sole Shareholder as of the record date, Driven Goal.

Cash flows

The following table shows our combined statement of cash flows for the Track Record Period:

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Net cash generated from operating activities	1,196,206	2,146,779	2,485,634
Net cash used in investing activities	(1,566,086)	(2,837,810)	(2,135,038)
Net cash generated from/(used in) financing activities	(18,405)	519,968	380,508
Net increase/(decrease) in cash and cash equivalents	(388,285)	(171,063)	731,104
Cash and cash equivalents at the beginning of the year	814,113	425,717	254,634
Effect of foreign exchange rate changes	(111)	(20)	(906)
Cash and cash equivalents at the end of the year	425,717	254,634	984,832

Net cash generated from operating activities

Net cash generated from operating activities for the year ended December 31, 2013 was RMB2,485.6 million, which was mainly attributable to our profit before tax of RMB3,100.4 million, primarily adjusted to add back (i) depreciation of RMB135.8 million, (ii) amortization of intangible assets of RMB34.6 million and (iii) finance costs of RMB63.2 million less the imputed interest income on the amount due from Jinzhou Heisenberg, a related party, of RMB146.4 million in relation to the disposal of our marine fuel assets. For a description of the accounting treatment of the disposal of our marine fuel assets, see “— Principal Components of our Income Statement - Other income”. The amount was partially offset by (i) income tax paid of RMB438.3 million, (ii) an increase in value added tax recoverable of RMB159.2 million mainly due to the increase in the value-added tax recoverable resulting from our purchase of production equipment for business expansion and (iii) an increase in trade and bills receivable of RMB83.2 million primarily as a result of the increase in our export sales where we grant credit terms to large global customers, the effect of which was partially offset by a decrease in inventories of RMB16.1 million primarily due to increased sales of our lubricant additive packages.

Net cash generated from operating activities for the year ended December 31, 2012 was RMB2,146.8 million, which was mainly attributable to our profit before tax of RMB2,553.7 million, primarily adjusted to add back (i) depreciation of RMB112.0 million, (ii) amortization of intangible assets of RMB30.4 million and (iii) finance costs of RMB55.1 million less the imputed interest income on amount due from Jinzhou Heisenberg of RMB134.3 million with respect to the disposal of our marine fuel assets. The amount was partially offset by (i) income tax paid of RMB365.8 million, (ii) the increase in the inventories of RMB164.0 million primarily due to expansion of business operations which resulted in higher levels of inventories and partly caused by inclement weather in Liaoning Province at year-end 2012 which caused delays in the shipping of finished goods to our clients, the effect of which was partially offset by a decrease in an amount due from related parties of RMB61.8 million relating to the repayment of amounts payable to Liaoning Tianhe, as further described in “— Related Party Transactions”.

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Net cash generated from operating activities for the year ended December 31, 2011 was RMB1,196.2 million, which was mainly attributable to our profit before tax of RMB1,164.2 million, primarily adjusted to add back (i) a loss on the disposal of marine fuel assets primarily consisting of a fair value adjustment of RMB280.7 million and (ii) depreciation of RMB107.6 million. This amount was partially offset by (i) income tax paid of RMB201.0 million and (ii) an increase in other receivables, deposits and prepayments and value added tax recoverable of RMB64.4 million, mainly due to the increase in the value-added tax recoverable resulting from our purchase of production equipment relating to our business expansion, the effect of which was partially offset by increase in trade and other payables of RMB26.2 million mainly resulting from the amount payable to relevant government authorities in relation to our acquisition of land use rights in 2011 for expansion of our production capacity.

Net cash used in investing activities

Net cash used in investing activities for the year ended December 31, 2013 was RMB2,135.0 million, consisting primarily of (i) the cash paid for acquisition of property, plant and equipment of RMB2,522.0 million primarily used in purchasing equipment for our fluorinated lubricant additives project, T109 (detergent agents) project and Group II and III base oil project, and (ii) a certificate of deposit of RMB1,162.0 million, which is partially offset by (i) the maturity of the certificate of deposit of RMB1,262.0 million and (iii) net repayment from related parties of RMB333.8 million, mainly representing repayment from Liaoning Tianhe.

Net cash used in investing activities for the year ended December 31, 2012 was RMB2,837.8 million, consisting primarily of (i) the cash paid for acquisition of property, plant and equipment of RMB1,945.3 million primarily used in purchasing equipment for the TI/TEI project in Fuxin, (ii) placement of bank deposits of RMB812.0 million and (iii) prepaid lease payments of RMB291.5 million primarily due to the land acquired for further production expansion, which is partially offset by (i) withdrawn bank deposits of RMB271.0 million and (ii) net payment from related parties of RMB59.0 million, mainly representing repayment from Driven Goal as further discussed in “— Related party transactions”.

Net cash used in investing activities for the year ended December 31, 2011 was RMB1,566.1 million, consisting primarily of (i) the purchase of property, plant and equipment of RMB1,295.8 million primarily used in purchasing equipment for marine fuel assets that we subsequently disposed of and the purchase of equipment for production of detergent products, (ii) net advances to related parties primarily to Liaoning Tianhe, of RMB139.1 million, and (iii) acquisition of intangible assets of RMB79.7 million, primarily representing the R&D cost for specialty fluorochemicals, which was partially offset by (i) proceeds from disposal of marine fuel assets of RMB20.0 million and (ii) withdrawn bank deposits of RMB15.0 million.

Net cash generated from/(used in) financing activities

Net cash generated from financing activities for the year ended December 31, 2013 was RMB380.5 million, which was mainly attributable to (i) new bank borrowings raised in the amount of RMB1,542.0 million primarily due to short term bank loans that we used to fund our working capital, and (ii) advances from related parties of RMB172.5 million primarily from Liaoning Tianhe, which was partially offset by (i) repayment of bank borrowings of RMB1,272.7 million and (ii) interest paid of RMB63.8 million.

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Net cash generated from financing activities for the year ended December 31, 2012 was RMB520.0 million, which was mainly attributable to (i) new bank borrowings raised in the amount of RMB958.0 million that we used to fund our working capital, which was partially offset by (i) repayment of bank borrowings of RMB336.1 million and (ii) interests paid of RMB55.3 million.

Net cash used in financing activities for the year ended December 31, 2011 was RMB18.4 million, which was mainly attributable to (i) repayment of entrusted loans of RMB189.9 million, (ii) repayment of bank borrowings of RMB114.4 million, which was partially offset by (i) net bank borrowings raised in the amount of RMB306.6 million primarily due to short term loans we used to fund working capital and (ii) proceeds from shareholder's loans of RMB29.3 million representing loans from Driven Goal used primarily for capital expenditures.

Working capital

Taking into account the financial resources available to us, including net proceeds from the Global Offering, our cash and cash equivalents on hand, unutilized banking facilities, if any, and cash flow generated from operations, our Directors believe that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this prospectus.

After due consideration and discussions with the Company's management and based on the above, the Joint Sponsors have no reason to believe that the Company cannot meet the working capital requirements for the 12 month period from the date of this prospectus.

CERTAIN ITEMS IN THE CONSOLIDATED BALANCE SHEET

Inventories

The table below sets forth details of our inventories as of the dates indicated:

	At December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Raw materials	61,882	85,050	73,632
Consumables	8,394	6,921	4,246
Work in progress	4,434	11,405	20,978
Finished goods	82,899	218,263	206,727
Total inventory	157,609	321,639	305,583

Our inventory consists of both raw materials and finished goods. In general, we are able to maintain visibility over our inventories as many of our products are produced to specifications for particular customers and are transported once manufactured. Our inventories increased from RMB157.6 million at December 31, 2011 to RMB321.6 million at December 31, 2012 mainly due to an increase in value of our inventory of finished goods, raw materials and work in progress. In 2012, our inventory of finished goods increased by RMB135.4 million, reflecting an increase of RMB82.6 million for lubricant additives and RMB52.8 million for specialty fluorochemicals. Accordingly, these increases in inventory mainly reflect the expansion of our production capacity, and the growth in our lubricant additives exports, which resulted in higher levels of inventories as we accumulated more stock for some of our overseas customers. Our inventories also increased at year-end 2012 due to inclement weather in Liaoning Province, resulting in a delay in transporting finished goods. As the overall volume of our products increase, and especially the levels of our exports, the inventory levels of our raw materials and finished products tend to also increase.

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As of April 30, 2014, approximately RMB257.5 million, or 84.3% of our inventories as of December 31, 2013 were sold or utilized.

The following table sets forth our inventory turnover days for the periods indicated:

	For the year ended December 31,		
	2011	2012	2013
Inventory turnover days ⁽¹⁾	26	53	58

Note:

(1) The average inventory turnover days for a year is the average inventory balance divided by cost of sales for that year and multiplied by 365 days.

Our average inventory turnover days increased from 26 days for the year ended December 31, 2011 to 53 days for the year ended December 31, 2012 due to the increased amount of finished goods resulting from our expanded production capacity and our increased level of exports of lubricant additives. In addition, our average inventory turnover days increased to 58 days for the year ended December 31, 2013 due to the increased work in progress primarily because of the further growth of our exports of lubricant additives.

Trade and bills receivables

We are able to keep our average trade and bills receivables turnover days to a relatively low number of days as we typically deliver goods upon payment. The following table sets forth details of trade and bills receivables as of the dates indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Trade receivables	66,669	51,297	124,228
Bills receivable	6,080	3,987	14,283
Less: allowance for doubtful receivables	(784)	(292)	(258)
Total	71,965	54,992	138,253

Our trade and bills receivables decreased from RMB72.0 million at December 31, 2011 to RMB55.0 million as of December 31, 2012 mainly due to a decrease in trade receivables for our lubricant additives segment as a result of lower overall sales in 2012 due to inclement winter weather. Our trade and bills receivable increased by RMB83.3 million, or 151.4%, to RMB138.3 million at December 31, 2013 as a result of longer credit terms, which are customary in some of our overseas markets, as a result of the increase in our level of exports. The higher level of trade receivables resulted from the increased level of exports of lubricant additives to overseas customers who enjoy a longer credit period, the increased sales of lubricant additives in the second half of 2013 compared to the corresponding period in 2012, the increased sales of trial products of specialty fluorochemical products in the fourth quarter of 2013, and, with respect to bills receivable, the adoption of a bank acceptance note by one of our large customers for settlement.

We generally deliver goods upon payment in line with the industry practice. In addition, from time to time, we may grant credit terms of 30 days to 90 days to select large customers for our lubricant additives segment, when they place purchase orders for lubricant additives in addition to the

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order volumes set out in the relevant legally binding annual framework agreements, which is consistent with the practice of the markets where we operate. Our customers generally settle payment on time, and as a result, we were able to maintain a low trade receivable balance during the Track Record Period. The table below sets forth ages of our trade and bill receivables, net of allowance for doubtful receivables, as of the dates indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Within 90 days	54,241	40,608	102,207
91 to 365 days	17,724	14,384	36,046
Total	71,965	54,992	138,253

As of April 30, 2014, we settled approximately RMB123.3 million, or 99.5% of our trade receivables outstanding as of December 31, 2013.

The following table sets forth our trade and bill receivables turnover days for the periods indicated:

	For the year ended December 31,		
	2011	2012	2013
Trade and bill receivables turnover days ⁽¹⁾	6	6	7

Note:

(1) The average trade and bill receivables turnover days for a year is the average trade and bills receivables balance divided by revenue for that year and multiplied by 365 days.

Our average trade and bill receivables turnover days remained stable during the Track Record Period.

Other receivables, deposits and prepayments

The following table sets forth details of other receivables, deposits and prepayments as of the dates indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Other receivables and deposits, net of allowance for doubtful receivables	3,729	5,230	5,434
Deposits	71,140	20,830	3,540
Advances to suppliers	54,286	36,916	37,470
Total	129,155	62,976	46,444

Our other receivables, deposits and prepayments decreased from RMB129.2 million as of December 31, 2011 to RMB63.0 million at December 31, 2012 due to a decrease in deposits in relation to bidding deposits for land use rights paid by our subsidiary North China Petrochemical with respect to land. As these land use deposits are refunded upon completion of the relevant auction process, our other receivables, deposits and prepayments further decreased to RMB46.4 million at December 31, 2013 due to the return of bidding deposits relating to our lubricant additives facility for the manufacture of Group II and III base oils.

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Trade and other payables

The following table sets forth details of trade and other payables as of the dates indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Trade payables	20,412	23,850	22,100
Other payables	18,454	9,807	32,967
Payable for prepaid lease payment	54,054	54,054	54,054
Staff welfare payables	22,313	22,195	21,400
Other tax payables	29,313	24,594	19,536
Accrued interests	1,634	1,394	864
Advance received from customers	3,338	7,471	15,591
Total	<u>149,518</u>	<u>143,365</u>	<u>166,512</u>

Our trade and other payables decreased from RMB149.5 million at December 31, 2011 to RMB143.4 million as of December 31, 2012 and increased to RMB166.5 million as of December 31, 2013. The increase from year-end 2012 to year-end 2013 was mainly due to an increase of RMB23.2 million in other payables and RMB8.1 million in advances received from customers. The increase in other payables was due to a deposit for equipment for the expansion of our detergent facility of RMB24.0 million; the increase in advances received from customers related to an advanced payment from one of our large lubricant additive customers, as that customer typically pays prior to receipt of the goods.

The average credit period on purchases of goods is within 90 days. The table below sets forth ages of our trade and other payables as of the dates indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Within 90 days	17,939	21,532	16,578
91 to 365 days	1,543	958	4,150
One to two years	425	471	431
Two to three years	299	408	124
Over three years	206	481	817
Total	<u>20,412</u>	<u>23,850</u>	<u>22,100</u>

As of April 30, 2014, approximately RMB17.5 million, or 79.3% of our trade payables outstanding as of December 31, 2013 were paid.

The following table sets forth our trade payable turnover days for the periods indicated:

	For the year ended December 31,		
	2011	2012	2013
Trade payable turnover days ⁽¹⁾	3	5	4

Note:

(1) The average trade payables turnover days for a year is the average trade payables balance divided by cost of sales for that year and multiplied by 365 days.

Our average trade payable turnover days were stable over the Track Record Period.

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RELATED PARTY TRANSACTIONS

It is the view of our Directors that each of the related party transactions set out in Note 35 to the Accountant's Report in Appendix I to this prospectus were conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties. None of the related party transactions set out in Note 35 to the Accountant's Report in Appendix I to this prospectus will continue after the Listing. For more details, please see the section headed "Connected Transaction" in this prospectus.

Amount due from Related Parties

The table below sets forth details of our amount due from related parties as of the dates indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Amount due from a related party (trade)			
Jinzhou Tianhe Import & Export Trading Co., Ltd. ⁽¹⁾	61,802	—	—
Amount due from related parties (non-trade)			
Jinzhou Heisenberg ⁽²⁾	637,880	731,871	813,744
Driven Goal ⁽³⁾	58,953	—	—
Jinzhou Peak Petrochemical Technology Co., Ltd. ⁽⁴⁾	—	13,255	—
Liaoning Tianhe ⁽⁵⁾	135,138	224,507	—
Jinzhou Tianhe Import & Export Trading Co., Ltd. ⁽⁶⁾	—	96,040	—
Total amount due from related parties	893,773	1,065,673	813,744

Notes:

- (1) represents receivables from Jinzhou Tianhe Import & Export Trading Co., Ltd., through whom we exported products to overseas clients, before we obtained our own import and export licenses in 2011. Jinzhou Tianhe Import & Export Trading Co., Ltd did not charge us fees for their services.
- (2) represents the balance of our disposal of marine fuel assets to Jinzhou Heisenberg which was fully settled in March 2014. See "— Principal Components of our income statement — Other income" for a description of this transaction.
- (3) represents the loan to Driven Goal, which was fully repaid in 2012.
- (4) The amounts represented the payable from Jinzhou Peak Petrochemical Technology Co., Ltd. in relation to the disposal of equipment relating to the marine fuel assets that we sold, which was fully repaid in 2013.
- (5) In 2011 and 2012, Liaoning Tianhe owed us RMB135.1 million and RMB224.5 million, and in 2013 we owed RMB174.7 million to Liaoning Tianhe primarily with respect to related party guarantees in connection with fund management between Liaoning Tianhe and us. In January 2014 we repaid RMB170.2 million to Liaoning Tianhe and all of the related guarantees will be released upon listing.
- (6) represents amounts we pre-funded to Jinzhou Tianhe Import & Export Trading Co., Ltd., through whom we intended to purchase certain imported raw materials. This amount was repaid in full in 2013.

Amounts due from related parties are unsecured, interest-free and expected to be repaid on demand. All amounts due from related parties have been settled.

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Amount due to Related Parties

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Amount due to related parties (non-trade)			
Mr. Wei Xuan ⁽¹⁾	18,903	—	37
Liaoning Tianhe ⁽²⁾⁽³⁾	2,237	2,237	174,673
Total amount due to related parties	21,140	2,237	174,710

Notes:

- (1) The RMB18.9 million represented the amount in USD that Mr. Wei Xuan lent to us for a foreign interest expense payment. The RMB37,000 amount relates to reimbursable travel expenses of Mr. Wei Xuan on behalf of the Company. We expect to repay these amounts prior to Listing.
- (2) The RMB2.2 million amounts due to Liaoning Tianhe in each of 2011, 2012 and 2013 relate to dividends payable from us to Liaoning Tianhe. We expect to pay these amounts prior to Listing.
- (3) In 2011 and 2012, Liaoning Tianhe owed us RMB135.1 million and RMB224.5 million, and in 2013 we owed RMB174.7 million to Liaoning Tianhe primarily with respect to related party guarantees in connection with fund management between Liaoning Tianhe and us. In January 2014 we repaid RMB170.2 million to Liaoning Tianhe and all of the related guarantees will be released upon listing.

Amounts due to related parties are unsecured, interest-free and expected to be repaid on demand. All amounts due to related parties has been settled.

Shareholder's Loans

We obtained loans from our shareholder, Driven Goal. The table below sets forth the outstanding principal amounts of our shareholder's loans as of dates indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Shareholder's loans	1,301,362	1,270,506	1,234,862

Our shareholder's loans consist of loans borrowed from Driven Goal, our immediate holding company, which are unsecured, interest-free and repayable on demand. We mainly utilized proceeds of these loans for capital expenditures. We expect to repay this loan to Driven Goal with the proceeds of this Offering as further discussed in "Future Plans and Use of Proceeds — Use of Proceeds".

Accordingly, all amounts due from/to our related parties and all guarantees provided by/to related parties will be released before/upon the Listing.

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CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily comprised of additions to property, plant and equipment and prepaid lease payments in line with our business expansion. For details about our production capacity expansion during the Track Record Period, please see the section headed “Business — Manufacturing.” The following table sets forth details of our capital expenditures during the Track Record Period.

	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Property, plant and equipment	1,295,794	1,945,344	2,521,964
Prepaid lease payments	26,126	291,500	128,758
Intangible assets	79,705	11,092	—
Total	1,401,625	2,247,936	2,650,722

Our planned capital expenditure for the year ending December 31, 2014 and 2015 is expected to be approximately RMB3.0 billion and RMB3.6 billion, respectively, primarily focusing on (i) expansion of our production capacity of existing products, such as our ashless dispersant product (T154), a detergent product (T106), TFE and TI/TEI and (ii) remaining capital expenditure for Group II and III base oil and capital expenditure for fluorinated lubricant additives. For details of our ongoing production expansion projects as of December 31, 2013, please see “Business — Manufacturing”. For detailed description on other projects we intend to develop after the Listing, please see “Future Plans and Use of Proceeds.” We intend to fund our future capital expenditure through a combination of our cash generated from operations, bank borrowings and proceeds from the Global Offering.

CAPITAL COMMITMENTS

The following table sets forth our capital commitments for property, plant and equipment outstanding but not provided for as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Acquisition or construction of property, plant and equipment contracted but not provided for:	3,050,982	1,564,344	1,469,017

Our capital commitments in 2011 primarily consisted of a RMB2.8 billion commitment for property, plant and equipment with respect to our Group II and III base oil facility, which we anticipate will become operational in late 2014. As of December 31, 2012, this commitment was RMB1.3 billion. As of December 31, 2013, this capital commitment with respect to our Group II and III base oil facility represented a small amount, but was replaced by commitments for our TFE facility, which accounted for RMB0.7 billion, as well as with respect to our fluorinated lubricant additives facility and our TI and TEI facilities, and expansion of our detergent and dispersment facilities. The Directors confirm that there has been no material change in our capital commitments from December 31, 2013 to the Latest Practicable Date.

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OPERATING LEASES

The following table sets out the minimum lease payments that we were committed to make under non-cancellable operating leases for the period indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
No later than one year	741	970	330
Later than one year and no later than five years	640	330	—
Total	1,381	1,300	330

INDEBTEDNESS

Overview

As of December 31, 2013, we have total bank borrowings of RMB1,324.1 million, out of which RMB1,254 million was denominated in Renminbi and RMB70.1 million was denominated in USD. We also have shareholder's loans outstanding of RMB1,234.9 million, all of which are denominated in USD.

As of April 30, 2014, the latest practicable date for our indebtedness statement, we had total committed bank credit facilities of RMB1,760.0 million, of which RMB374.4 million was unutilized and unrestricted. We also had shareholder's loans outstanding of RMB1,241.9 million and amount due to a related party of RMB33.1 million.

The following table sets out our total bank borrowings and their maturity profile as of the dates indicated:

	As of December 31,			As of
	2011	2012	2013	April 30, 2014
	<i>(RMB in thousands)</i>			
Unsecured bank borrowings	308,000	958,000	1,254,000	1,370,000
Secured bank borrowings	125,703	97,654	70,139	899,359
Total bank borrowings	433,703	1,055,654	1,324,139	2,269,359
Bank borrowings repayable:				
Within one year	335,934	985,866	1,281,030	2,139,813
More than one year but not exceeding two years	27,934	27,866	27,030	129,546
More than two years but not exceeding five years	69,835	41,922	16,079	—

With respect to our shareholder's loans, they are payable on demand and the aggregate principal amount outstanding was RMB1,241.9 million, as of April 30, 2014. The loans do not bear interest, are unsecured and do not contain financial covenants. We intend to apply some of the net proceeds of the Global Offering to repay these shareholder's loans upon the Listing.

With respect to our amount due to a related party of RMB33.1 million as of April 30, 2014, such amount is unsecured, interest-free and repayable on demand. Such amount due to a related party will be settled prior to Listing.

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The table below sets forth the interest rates per annum of our bank borrowings as of the dates indicated:

	As of December 31,		
	2011	2012	2013
Long-term interest-bearing bank borrowings			
— Secured	3.265–3.395%	3.2518–3.5556%	3.2649–3.519%
Short-term interest-bearing bank borrowings			
— Unsecured	6.56–7.216%	5.6–7.87%	5.6–6.6%

The effective annual interest rates of our bank loans ranged from 3.27% to 7.22%, from 3.25% to 7.87%, and from 3.26% to 6.60%, for the years ended December 31, 2011, 2012 and 2013, respectively.

Bank loans — Secured

Banking facility agreement with (i) Nederlandse Financierings-Maatschappu Voor Ontwikkelingslanden N.V. and (ii) DEG — Deutsche Investitions — Und Entwicklungsgesellschaft MBH

Our subsidiary, Jinzhou DPF-TH, borrowed, in 2008, from (i) Nederlandse Financierings-Maatschappu Voor Ontwikkelingslanden N.V. and (ii) DEG — Deutsche Investitions — Und Entwicklungsgesellschaft MBH, for a loan of US\$26.6 million, which we used to fund the construction facilities for production of long-chain linear alkyl benzene sulfonic acid at Bawang Village. This loan is secured by property, plant and equipment and land use rights at Bawang Village. The interest rate is six-month LIBOR plus 2.8% determined at the date of each interest payment date. We have the option to convert the interest rate of this loan to a fixed interest rate at six-month LIBOR plus the applicable spread. The maturity date is February 4, 2016.

The loan contains customary covenants and restrictions for facilities of this type in Hong Kong, including restrictions on our ability to place further liens on our properties and our ability to incur additional secured debt in an aggregate amount of over US\$15.0 million unless otherwise agreed upon by the lenders. In addition, the borrower must remain under the control of the Wei Family.

As of April 30, 2014 the outstanding amount of this loan was US\$8.9 million, which we intend to repay with our working capital.

Banking facility agreement with The Hongkong and Shanghai Banking Corporation Limited

Our subsidiary, Advanced Grade, entered into a banking facility agreement with The Hongkong and Shanghai Banking Corporation Limited on April 2, 2014, for a banking facility of US\$139.3 million, which is secured by a pledge over our onshore deposit in HSBC Bank (China) Company Limited, a subsidiary of The Hongkong and Shanghai Banking Corporation Limited. The term of the facility is one year and may be renewed upon expiration. The loan contains customary covenants and restrictions for banking facilities of this nature in Hong Kong, including restrictions on applications of the loan proceeds.

On April 4, 2014, we drew down on the facility in the amount of US\$136.9 million at the interest rate of 1.3315% per annum. The loan will become mature on October 6, 2014 and may be renewed for another six months at the interest rate of six months LIBOR +1% per annum. We utilized the proceeds of the loan to pay the dividend we declared on March 5, 2014. We intend to repay this loan with a combination of cash generated from operations and bank borrowings.

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Bank loans – Unsecured

The following table sets forth details of our unsecured bank loans.

	Amount / Aggregate Amount	Interest rate	Term / Maturity date	Outstanding amount as of April 30, 2014
	<i>(RMB in millions)</i>			<i>(RMB in millions)</i>
Loan agreement with Dalian Branch of China Citic Bank ⁽¹⁾	70.0	6.6%	Six months / May 28, 2014	70.0
Entrusted loan agreement with Dalian Branch of China Citic Bank, as the entrustor lender, and China Securities Co., Ltd., as the trustee lender	400.0	6.6%	One year / May 29, 2014	400.0
Three loan agreements with Jinzhou Branch of Industrial and Commercial Bank of China	400.0	5.6%	Six months/ between May 21 and September 7, 2014	400.0
Loan agreement with Jinzhou Branch of China Merchant Bank	100.0	6.15%	18 months / May 25, 2015	100.0
Seven Loan agreements with Jinzhou Branch of Bank of Communications ⁽¹⁾	400.0	5.6%– 6.1%	Six months/ between June 30, 2014 and November 26, 2014	400.0

Note:

(1) These loans are guaranteed by Liaoning Tianhe, a related party, and the guarantees will be cancelled upon Listing.

These loans contain customary covenants and restrictions for facilities of this type in the PRC, including restrictions on disposal of the borrower's material assets through assignment, leasing or providing guarantee unless otherwise agreed by the lender in writing and obligations to make timely written notice to the lender for any material development of the borrower's operations and providing timely report to lenders for the use of proceeds.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that they are not aware of any material defaults in payment of our trade and non-trade payables and bank borrowing. Other than otherwise disclosed in this prospectus, the agreements under our banking borrowings do not contain any material covenants that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future.

Save as disclosed herein, we did not have any other material borrowings or indebtedness, hire purchase commitments, mortgages and charges, or other material contingent liabilities as of April 30, 2014.

Our Directors confirm that we did not have any material default in payment of trade or other payables or bank borrowings, nor did we breach any material finance covenants during the Track Record Period. Our Directors have confirmed that we do not have any plan to raise material external debt financing as of the date of this prospectus.

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We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although there is no assurance that we will be able to access bank financing on favorable terms or at all.

Shares Pledged

The equity interests of Advanced Grade, TurboRICH, Vivid Rise, China Venture and China Vision were partially pledged with Investec, MSPEA, Victor Keen and PAG in connection with their respective pre-IPO investment. Such share charge will be released and discharged in full upon the exchange of the exchangeable loans, the Series A Preferred Shares, Exchangeable Bonds, as applicable, into our Shares immediately before the Listing.

For more information about the share pledge and pledge of the equity interests of our Company, please refer to the section headed “Our History and Corporate Structure — Pre-IPO Investors of Our Group”.

Statement of Indebtedness

Save as disclosed in this prospectus, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities as of April 30, 2014, being the latest practicable date for our indebtedness statement. Our Directors confirm that, as of the Latest Practicable Date, there is no material change in the Company’s indebtedness since April 30, 2014. As of the Latest Practicable Date, we do not have any plans to raise additional external debt financing.

CONTINGENT LIABILITIES

Except as described in the section “Off-balance sheet arrangements” below, as of December 31, 2013, we did not have any significant contingent liabilities other than RMB300.0 million in financial guarantees given to banks with respect to bank loans of Liaoning Tianhe, a related party. Liaoning Tianhe had fully drawn the bank facility as of December 31, 2013. The financial guarantees were released in March 2014.

We record provisions when we believe it is probable that an outflow of resources will be required to satisfy the obligation, and when the amount can be reliably estimated.

OFF-BALANCE SHEET ARRANGEMENTS

The Directors confirm that there has been no material change in our contingent liabilities since December 31, 2013 to the date of this prospectus.

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SUMMARY OF FINANCIAL RATIOS

The table below sets forth our key financial ratios as of the dates and for the years indicated:

	As of and for the year ended December 31,		
	2011	2012	2013
EBITDA margin (%) ⁽¹⁾	47.3	62.4	63.0
Net profit margin (%) ⁽²⁾	28.2	52.2	52.2
Gearing ratio (%) ⁽³⁾	65.8	48.2	34.3
Net debt to equity ratio (%) ⁽⁴⁾	49.1	31.4	15.0
Interest coverage ⁽⁵⁾	81.1	44.8	47.4
Return on total assets (%) ⁽⁶⁾	20.8	30.0	25.2
Return on equity (%) ⁽⁷⁾	35.9	45.4	35.2
Current ratio ⁽⁸⁾	0.6	0.7	1.0

Notes:

- (1) EBITDA margin is calculated by dividing EBITDA by revenue. EBITDA equals to the sum of (i) EBIT, (ii) depreciation, (iii) release of prepaid lease payments, and (iv) amortization of intangible assets. EBIT equals to the sum of (i) profit before taxation, (ii) finance cost and (iii) loss on disposal of marine fuel assets, minus interest income. We present EBITDA margin in certain tables and discussions in this prospectus in addition to other financial information because we consider EBITDA margin to be an important performance measure and we believe that EBITDA margin is commonly used by investors and others in assessing the financial performance of companies in our industry. EBITDA margin is not a standard measure under IFRS and should not be used as a substitute for operating margin, net income, cash flows, or other data prepared in accordance with generally accepted accounting principles as a measure of our profitability or liquidity. Our calculation of EBITDA margin may differ from similarly titled computations of other companies.
- (2) Net profit margin is calculated by dividing net profit attributable to owners of the Company by revenue.
- (3) Gearing ratio is calculated by dividing total debt by total equity. Total debt equals the sum of bank borrowings and shareholder's loans.
- (4) Net debt to equity ratio is calculated by dividing net debt by total equity at the end of the respective period. Net debt equals total debt minus the sum of (i) cash and cash equivalents and (ii) bank deposits.
- (5) Interest coverage is calculated by dividing EBIT by finance costs.
- (6) Return on total assets is calculated by dividing net profit attributable to owners of the Company by total assets at the end of the respective period.
- (7) Return on equity is calculated by dividing net profit attributable to owners of the Company by total equity at the end of the respective period.
- (8) Current ratio is calculated by dividing current assets by current liabilities.

Gearing ratio

Our gearing ratio decreased from 65.8% as of December 31, 2011 to 48.2% as of December 31, 2012, primarily because of the increase in total equity, resulting from the increase of retained earnings as of December 31, 2012, partially offset by the increase of bank borrowings that we used to fund our working capital. Our gearing ratio further decreased to 34.3% as of December 31, 2013 mainly due to the increase in total equity resulting from the increase of retained earnings as of December 31, 2013, partially offset by the increase of bank borrowings used to fund our working capital.

Net debt to equity ratio

Our net debt to equity ratio decreased from 49.1% as of December 31, 2011 to 31.4% as of December 31, 2012 due to the increase in the total equity, as a result of the increased retained earnings as of December 31, 2012, and the increase of bank deposits resulting from the increase in our operating cash flow and loan financings prior to the application of proceeds. Our net debt to equity ratio further decreased to 15.0% as of December 31, 2013, primarily due to the increase in total equity, as a result of the increased retained earnings as of December 31, 2013 and the increase of cash and cash equivalents due to an increase in operating cash flow.

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Interest coverage

Our interest coverage decreased from 81.1 times for the year ended December 31, 2011 to 44.8 times for the year ended December 31, 2012, mainly because the increase in our financial costs from 2011 to 2012 primarily caused by the increase in bank borrowings in 2012, the effect of which was partially offset by the increase in our profit in 2012. Our interest coverage increased from 44.8 times for the year ended December 31, 2012 to 47.4 times for the year ended December 31, 2013, primarily because of the increase in our profit in 2013, the effect of which was partially offset by the increase in our financial costs in 2013 as a result of the increase in our bank borrowings.

Return on equity

Our return on equity increased from 35.9% for the year ended December 31, 2011 to 45.4% for the year ended December 31, 2012 mainly due to increase in our profit in 2012. Return on equity decreased to 35.2% for the year ended December 31, 2013 primarily because the increase in our equity in 2013 resulting from retaining earnings in 2013.

Current ratio

Our current ratio reflects our current assets divided by our current liabilities. Our current ratio increased from 0.6 to 0.7 from December 31, 2011 to December 31, 2012, and further to 1.0 as of December 31, 2013.

LISTING EXPENSES

The total amount of listing expenses, commissions and the maximum incentive fee (if any), together with SFC transaction levy and Stock Exchange trading fee that will be borne by us in connection with the Global Offering is estimated to be approximately HK\$214.6 million (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised), of which approximately HK\$122.9 million is expected to be capitalized after the Listing. The remaining listing expenses in the amount of approximately HK\$91.7 million is expected to be charged to our income statement.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISKS

Credit risk

In order to minimize our credit risk, we carry out monitoring procedures to ensure follow up action is taken to recover overdue debts. In addition, we regularly review the recoverable amount of each individual trade and other receivables and amounts due from related parties at the end of each reporting period.

As a substantial portion of our revenue is derived from our top five customers, 65.8%, 76.2% and 38.2% of our trade receivables as of December 31, 2011, 2012 and 2013 are due from our top five customers located in the PRC. Other than these trade receivables and concentrations of credit risk that we deposit with banks, we do not have any significant concentration of credit risk. We also regularly review the amounts due from our subsidiaries. Although these amounts are concentrated, we consider the credit risk to be limited.

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Liquidity risk

We manage liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. Our management monitors the utilization of bank borrowings from time to time.

We also verify our compliance with our financial covenants on a quarterly basis, monitor expected and realized cash and update projected future cash flows in order to optimize liquidity management and identify funding shortfalls, if any.

We expect to fund our future cash flow needs through internally generated cash flows from operations, bank borrowings as well as the net proceeds of the Global Offering.

Foreign currency risk

Our reporting currency is in RMB. We mainly operate in China with most of the transactions denominated and settled in RMB, while we also have limited foreign currency transactions in relation to our trade receivables. We have certain assets and liabilities, including trade receivables, cash and cash equivalents, other payables, bank borrowings and shareholder's loans that are primarily denominated in U.S. dollars and Hong Kong dollars. Our Directors confirm that we do not conduct any hedging activities with respect to our foreign currency risk exposure.

If the RMB had weakened/strengthened by 1% against the U.S. dollar and Hong Kong dollar and all other variables were held constant, our profit for the years ended December 31, 2011, 2012 and 2013 would have decreased/increased by RMB12.1 million, RMB11.5 million and RMB10.5 million, respectively. The sensitivity analysis may not represent our inherent foreign exchange risk as the year end exposure may not reflect the exposure during the full year.

Interest rate risk

Our interest rate risk mainly arises from bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. We had bank borrowings of zero, RMB400 million and zero as of December 31, 2011, 2012 and 2013, respectively, at fixed interest rates and RMB433.7 million, RMB655.7 million and RMB1,324.1 million as of December 31, 2011, 2012 and 2013, respectively at variable interest rates. Our directors confirm that we do not use any derivative contracts to hedge potential fluctuations of interest rates.

If interest rates had been 50 basis points higher/lower in respect of variable rate bank borrowings and all other variables were held constant, our profit for the years ended December 31, 2011, 2012 and 2013 would have decreased/increased by RMB1.8 million, RMB2.8 million and RMB5.6 million, respectively.

DIVIDEND POLICY

On March 5, 2014, our Company declared a non-recurring dividend of approximately RMB810.0 million (net of withholding tax) out of our distributable reserves to our sole Shareholder as of the record date, Driven Goal. We made full payment of this dividend on April 4, 2014, utilizing the proceeds of an offshore bank loan secured by a pledge over our onshore funds. Investors in the Global

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Offering will become our Shareholders after the declaration of dividend, and accordingly, they will not be entitled to this dividend.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. The payment and the amount of any dividends will be at the discretion of our Board and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutive documents, including our Articles of Association, the Companies Act as well as (where required) the approval of Shareholders. You should note that historical dividend distributions are not indicative of our future dividend distribution policy. Subject to the foregoing factors, we expect that the profits distributed in cash each year will be no less than 25% of the distributable profits for that year, we cannot assure you, however, that we will be able to declare or distribute dividends in any amount each year or in any year. The declaration and payment of dividends may be limited by legal restrictions or financing arrangements that we may enter into in the future.

DISTRIBUTABLE RESERVES

As of December 31, 2013, our distributable reserves totaled approximately RMB472.3 million, representing the aggregate amount of our share premium and retained profits.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted net tangible assets of the Group which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Listing as if the Listing had taken place on December 31, 2013 and based on the audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as of December 31, 2013 as shown in the Accountant's Report of the Group set out in Appendix I of this prospectus and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as of December 31, 2013 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB)</i>	<i>(HK\$)</i>
Based on an Offer Price of HK\$1.75 per Share	<u>7,206.9</u>	<u>2,685.6</u>	<u>9,892.5</u>	<u>0.39</u>	<u>0.49</u>
Based on an Offer Price of HK\$2.25 per Share	<u>7,206.9</u>	<u>3,473.7</u>	<u>10,680.6</u>	<u>0.42</u>	<u>0.53</u>

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as of December 31, 2013 has been extracted from the Accountant's Report of the Group set out in Appendix I of this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on 2,043,000,000 New Shares at the Offer Price of HK\$1.75 and HK\$2.25 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by us. No account has been taken of the Shares which may be issued pursuant to any exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 25,533,000,000 Shares, being the number of Shares expected to be in issue immediately following the completion of the Global Offering without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option. The unaudited pro forma adjusted net tangible assets

FINANCIAL INFORMATION

per Share in RMB is converted to Hong Kong dollars at the PBOC rate of RMB0.79549 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

- (4) No adjustment has been made to the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2013 to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2013. In particular, the unaudited pro forma adjusted consolidated net tangible assets in the table above have not been adjusted to show the effect of the dividend declared by the Company. Subsequent to December 31, 2013, the Company declared a dividend of totaling RMB810 million to its then shareholders and no pro forma adjustment has been made to the consolidated net tangible assets of the Group.

DISCLOSURES MADE PURSUANT TO RULES 13.13 TO 13.19 OF HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since December 31, 2013 (being the date to which our Company's latest consolidated audited financial results were prepared) and there has been no event since December 31, 2013 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section headed “Business — Development Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$2.00 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$3,917.8 million, after deduction of underwriting fees and commissions and estimated expenses payable in connection with the Global Offering and assuming the Overallotment Option is not exercised.

- approximately 30.3%, or HK\$1,186.3 million, allocated to development of lubricant additives, including special fluorized lubricating oil products. In particular, we intend to allocate (i) HK\$189.0 million to develop an ashless dispersant products production project with an expected design production capacity of 30,000 tonnes per year at Bawang Village, Liaoning Province; (ii) HK\$773.3 million to develop the production facility for lubricant additives with an aggregated expected design production capacity of 100,000 tonnes per year at Qinzhou, Guangxi Province; and (iii) HK\$224.0 million to develop R&D capacities for lubricant additives production, including establishing R&D facilities and purchasing R&D and Quality Control equipment;
- approximately 30.3%, or HK\$1,187.5 million, allocated to development of specialty fluorochemical products. In particular, we intend to allocate (i) HK\$358.1 million to develop a TFE production facility with an expected design production capacity of 5,000 tonnes per year at Fuxin, Liaoning Province; (ii) HK\$201.4 million to develop a TI/TEI production project with an expected design production capacity of 2,000 tonnes per year at Fuxin, Liaoning Province; (iii) HK\$404.1 million to develop a fluorinated latex paint project with an expected design capacity of 30,000 tonnes per year at Fuxin, Liaoning Province; and (iv) HK\$224.0 million to develop specialty fluorochemical products R&D capacities including establishing relevant R&D facilities and purchasing R&D equipment; and
- approximately HK\$1,544.0 million (representing approximately 39.4% of the net proceeds from the Global Offering) will be used for repayment of the shareholder’s loans granted to us by Driven Goal. The shareholder’s loans from Driven Goal is unsecured, interest-free and repayable on demand.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$2.25 per Share, the net proceeds we receive from the Global Offering will increase by approximately HK\$495.4 million. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$1.75 per Share, the net proceeds we receive from the Global Offering will decrease by approximately HK\$495.4 million.

We estimate the net proceeds to the Selling Shareholders from the Sale Shares will be approximately HK\$1,501.9 million (to be received upon Listing and assuming the Offer Price is fixed at the

FUTURE PLANS AND USE OF PROCEEDS

mid-point of the indicative Offer Price range and no exercise of the Over-allotment Option), after deducting the underwriting fees and estimated expenses payable by the Selling Shareholder in relation to the Global Offering, our Company will not receive any proceeds from the Sale Shares in the Global Offering. In addition, our Company will not receive any of the net proceeds from the exercise of the Over-allotment Option.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorized financial institutions and/or licensed banks in Hong Kong.

UNDERWRITING

HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited
UBS AG, Hong Kong Branch
Merrill Lynch Far East Limited
Goldman Sachs (Asia) L.L.C.
BOCI Asia Limited
ICBC International Securities Limited
Investec Capital Asia Limited
First Shanghai Securities Limited
Pacific Foundation Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on June 6, 2014 among our Company, the Controlling Shareholders, the Joint Sponsors, the Joint Global Coordinators and the abovementioned Hong Kong Underwriters. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned herein and the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for Termination

If, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has been a breach of any of the warranties or there has been a material breach by the Company or the Controlling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the prospectus, result in a material misstatement in, or constitute a material omission from, any of the prospectus and the Application Forms and/or in any announcements and the formal notice issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (c) any statement contained in any of the prospectus, the Application Forms, the formal notice and/or in any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was

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- issued, or has become, untrue, incorrect or misleading in any material respect, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of the prospectus, the Application Forms and/or any announcements, issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair, honest and based on reasonable assumptions; or
- (d) there shall have occurred any event, act or omission which gives or is likely to give rise to any material liability of any of the Company or the Controlling Shareholders pursuant to the indemnities under the Hong Kong Underwriting Agreement; or
 - (e) there shall have been any material adverse change or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or trading, or performance of the Company and the other members of the Group, taken as a whole; or
 - (f) the Company withdraws the prospectus (and/or any other documents used in connection with the subscription or sale of any of the Offer Shares pursuant to the Global Offering) or the Global Offering; or
 - (g) there is an order or petition for the winding up of any member of the Group with substantive business operations or any composition or arrangement made by any such member of the Group with its creditors or a scheme of arrangement entered into by any such member of the Group or any resolution for the winding up of any such member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any such member of the Group or anything analogous thereto occurring in respect of any such member of the Group; or
 - (h) any actions, suits, claims (whether or not any such claim involves or results in any actions or proceedings), demands, investigations, judgment, awards and proceedings, joint or several, from time to time instituted, made or brought or threatened or alleged to be instituted, made or brought against or otherwise involved (together, the "**Action**") of any third party being threatened or instigated against any member of the Group which, individually or in the aggregate, results in or is likely to result in a material adverse effect; or
 - (i) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from being a director of a company; or
 - (j) any authority in any Relevant Jurisdiction (as defined below) or any political body in the PRC commencing any Action, or announcing an intention to take any Action, against any Director; or
 - (k) any prohibition by a competent authority on the Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or
 - (l) the chairman or chief executive officer of the Company vacating his office; or
 - (m) the Company is required to issue a supplement or amendment to the prospectus (or the Application Forms) pursuant to the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC, which would or is likely to adversely affect the marketing for or implementation of the Global Offering; or

UNDERWRITING

- (n) the approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued under the Global Offering and any Shares that may be issued pursuant to the exercise of options that are granted under the Share Option Scheme is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (o) any expert named in the prospectus (other than the Joint Sponsors) having withdrawn its consent to the issue of or inclusion of their name in the prospectus; or
- (p) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to or constituting:
 - (i) any change or development involving a prospective change, or any event or series of events likely to result in any change in, local, national or international financial, political, economic, military, industrial, fiscal, regulatory, currency, credit or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the British Virgin Islands, the US, the United Kingdom, Japan, the PRC, Singapore or the European Union as a whole (each a “**Relevant Jurisdiction**”); or
 - (ii) any new law or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events, in the nature of force majeure affecting any Relevant Jurisdiction including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, volcanic eruptions, earthquake, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike, lock-out (whether or not covered by insurance); or
 - (iv) the imposition of any moratorium, suspension, major disruption or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange or the Tokyo Stock Exchange or any major disruption of any securities settlement or clearing services in any Relevant Jurisdiction or on commercial banking activities, foreign exchange or trading in any Relevant Jurisdiction, due to exceptional financial circumstances or otherwise; or
 - (v) a change or development involving a prospective change in taxation, exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including without limitation a material devaluation of the Hong Kong dollar, the Euro, the Japanese yen, the Renminbi, the United States dollar or the British pound sterling against any foreign currencies); or

UNDERWRITING

- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly by, or for any of the Relevant Jurisdictions (or member thereof) on the PRC; or
 - (vii) any non-compliance of the prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law; or
 - (viii) any contravention by any member of the Group of the Listing Rules or any applicable laws,
- which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):
- (A) is or will be, or is likely to result in a material adverse change; or
 - (B) has or will have or is likely to have a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or subscribed for or purchased or the distribution of the Offer Shares or dealings in the Shares in the secondary market; or
 - (C) makes it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the International Offering on the terms and in the manner contemplated in the Offer Documents (as defined therein); or
 - (D) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof,

then the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) after consultation with the Company but in any case in the Joint Global Coordinators' sole and absolute discretion, may, upon giving notice to the Company on or prior to 8:00 a.m. on the Listing Date, terminate this Agreement with immediate effect.

Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules

(A) Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in any of the circumstances provided for under Rule 10.08 of the Listing Rules or pursuant to the Global Offering.

(B) Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and to our Company that, except for the sale of the Sale Shares pursuant to the Global Offering or, pursuant to the Stock Borrowing Agreement, he/she or it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of its/hers shareholding is made in this prospectus and ending on the date which is six months from

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the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she or it is shown by this prospectus to be the beneficial owner; and

- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she or it would cease to be the controlling shareholder of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she or it will:

- (i) when he/she or it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when he/she or it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of any of the above matters (if any) by our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed by our Controlling Shareholders.

Undertakings pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by our Company

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that we will, except pursuant to the Reorganization and the Global Offering and the exercise of the options which may be granted under the Share Option Scheme, not without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (a) at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months from the Listing Date (the “**First Six-Month Period**”):
 - (I) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or contract or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly (through a chain of

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companies or otherwise), conditionally or unconditionally, any Shares or any other equity securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares of the Company), or deposit any Shares or any other equity securities of the Company with a depository in connection with the issue of depository receipts; or

- (II) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares of the Company); or
- (III) enter into any transaction with the same economic effect as any transaction described in paragraphs (I) or (II) above; or
- (IV) offer to or agree to, or announce any intention to enter into, any transaction described in paragraphs (I), (II) or (III) above,

whether any such transaction described in paragraphs (I) or (II) or (III) above is to be settled by delivery of Shares or such other equity securities of the Company, as applicable, or in cash or otherwise (whether or not the allotment or issue of Shares or such other securities of the Company, as applicable, will be completed within the First Six-Month Period); and

- (b) enter into any of the foregoing transactions in paragraphs (a)(I), (II) and (III) above, or offer to or agree to or announce any intention to enter into any such transaction, such that the Controlling Shareholders would cease to be controlling shareholders (as defined in the Listing Rules) of the Company during the six-month period immediately following the First Six-Month Period (the “**Second Six-Month Period**”); and
- (c) in the event that, at any time during the Second Six-Month Period, the Company enters into any of the transactions specified in paragraph (a) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the Shares or any other securities of the Company. The Controlling Shareholders have undertaken to the Joint Sponsors, the Joint Global Coordinators, the Hong Kong Underwriters and each of them to procure the Company to comply with the above undertakings.

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(B) Undertakings by our Controlling Shareholders

Each of the Controlling Shareholders has agreed and undertaken to the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and each of them that, save as pursuant to the Reorganization, the Stock Borrowing Agreement and the sale of Shares pursuant to the Global Offering (including the exercise of the Over-allotment Option) or otherwise in connection with the Global Offering, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

(a) during the First Six-Month Period:

- (I) he/she/it will not sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of the Company) held by him/her/it as of the date of the Hong Kong Underwriting Agreement; or
- (II) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (III) enter into any transaction with the same economic effect as any transaction described in (I) or (II) above; or
- (IV) offer to or agree to, or announce any intention to enter into, any transaction described in (I) or (II) or (III) above,

whether any such transaction described in (I) or (II) or (III) above is to be settled by delivery of such capital or securities, in cash or otherwise (whether or not such transaction will be completed within the First Six-Month Period); and

- (b) during the Second Six-Month Period, he/she/it will not enter into any of the foregoing transactions in paragraphs (a)(I) or (II) or (III) above or offer to or agree to or announce any intention to enter into any such transactions if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, the Controlling Shareholders will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that he/she/it enters into any of the foregoing transactions in paragraphs (a)(I) or (II) or (III) above or offers to or agrees to, or announces an intention to enter into any such transactions, he/she/it will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the securities of the Company.

Subject to the above undertakings, each of the Controlling Shareholders has agreed and undertaken to the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, if at any time after the date of the Hong Kong

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Underwriting Agreement up to and including the date falling twelve months from the Listing Date, he/she/it shall (i) if and when he/she/it pledges or charges any securities or interests in the securities of the Company beneficially owned by him/her/it, immediately inform the Company of such pledge or charge together with the number of securities so pledged or charged; and (ii) if and when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be disposed of, immediately inform the Company of such indications. The Company has agreed and undertaken that upon receiving such information in writing from the Controlling Shareholders, it shall, as soon as practicable, notify the Stock Exchange and make a public disclosure in relation to such information by way of announcement.

Indemnity

We and our Controlling Shareholders have agreed to indemnify the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters' Interests in our Company

Except for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in the section headed “Our History and Corporate Structure—Pre IPO Investors of the Group” of this prospectus, none of the Hong Kong Underwriters has any shareholding interest in us or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we, the Selling Shareholders and the Controlling Shareholders will enter into the International Underwriting Agreement with, among others, the Joint Global Coordinators, the Joint Bookrunners and the International Underwriters on or about June 13, 2014. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally agree to procure subscribers to subscribe for the International Offer Shares being offered pursuant to the International Offering, or failing which to subscribe for themselves, their respective applicable proportions of such International Offer Shares which are not taken up under the International Offering.

Over-allotment Option

The Over-allotment Option Grantors will grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until Saturday, July 12, 2014, being the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantors to sell up to an aggregate of 422,588,000 additional Shares, together representing approximately 15% of the number of Shares initially being offered under the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any.

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Undertakings by the Selling Shareholders and the Over-allotment Option Grantors

Each of the Selling Shareholders and the Over-allotment Option Grantors will, pursuant to the International Underwriting Agreement, agree that it will not, at any time after the date of the International Underwriting Agreement up to and including the date falling six months from the Listing Date, dispose of any of its Shares (save as the Shares to be disposed of by it as a Selling Shareholder and/or an Over-allotment Option Grantor); provided, however, that Mr. Jimmy Chen may transfer Shares to a trust or other vehicle established for the benefit of himself or any of his family members, or to his estate or to any of his family members.

Lock-up Undertakings from Other Shareholders

To facilitate the Global Offering, in addition to the undertakings by our Controlling Shareholders pursuant to the Hong Kong Underwriting Agreement and the undertakings by the Selling Shareholders and the Option Grantors as described above, the other Shareholders, namely, Dr. David Allen Flanigan, Dr. David Alan Offord, Dr. Paul Raphael Resnick, Victor Keen, MSPEA and PAG, will each enter into a lock-up undertaking in favor of, among others, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters that it will not, at any time during the period commencing on the date of the undertaking, and ending on a date which is six months after the Listing Date, dispose of any of its Shares; provided, however, that each of Dr. David Allen Flanigan, Dr. David Alan Offord and Dr. Paul Raphael Resnick may transfer Shares to a trust or other vehicle established for the benefit of himself or any of his family members, or to his estate or to any of his family members.

Further, each of Mr. Jimmy Chen, Dr. David Allen Flanigan, Dr. David Alan Offord and Dr. Paul Raphael Resnick will enter into a deed of lock-up undertaking in favor of the Company for a lock-up period commencing on the Listing Date and ending on a date which is five years after the Listing Date or June 30, 2019, whichever is earlier, during which he may dispose of Shares held by him in phase as described in “Our History and Corporate Structure — Lock-up Undertakings.”

Commission and Expenses and Joint Sponsors’ Fee

According to the terms and conditions of the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 2.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, an underwriting commission at the rate applicable to the International Offering will be paid to the relevant International Underwriters (but not the Hong Kong Underwriters). Underwriting commission will be payable by our Company, the Selling Shareholders and the Over-allotment Option Grantors in proportion to the number of Offer Shares offered for subscription or sale by each of them in the Global Offering (including the additional Offer Shares to be sold pursuant to the exercise of the Over-allotment Option) respectively. In addition, we may pay, in our discretion, an incentive fee to any or all of the Underwriters of up to an aggregate of no more than 1.0% of the Offer Price for each Hong Kong Offer Share.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$2.00 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), the aggregate commissions and the maximum incentive fee (if any), together with the Hong Kong Stock Exchange listing fees, SFC transaction levy, the Hong Kong Stock Exchange trading

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fee and other expenses relating to the Global Offering to be borne by our Company are estimated to amount to approximately HK\$214.6 million in aggregate.

An aggregate amount of US\$2.7 million is payable by the Company as sponsor fees to the Joint Sponsors.

Other Services provided by Underwriters

Certain of the Joint Global Coordinators, the Underwriters or their respective affiliates have, from time to time, provided and expect to provide in the future, investment banking and other services to you, other potential investors, the Company and our respective affiliates, for which such Joint Global Coordinators, Underwriters or their respective affiliates have received or will receive customary fees and commissions. The Joint Global Coordinators and Underwriters may in their ordinary course of business provide financing to investors secured by the Offer Shares offered by this prospectus. Such Joint Global Coordinators and Underwriters may enter into hedges and/or dispose of such Offer Shares in relation to the financing which may have a negative impact on the trading price of the Shares.

SPONSOR'S INDEPENDENCE

MSPEA will hold approximately 8.602% of the issued share capital of our Company immediately following the completion of the Global Offering.

MSPEA, being an associate of Morgan Stanley Asia Limited, is regarded as a member of the sponsor group of Morgan Stanley Asia Limited as defined in the Listing Rule. Accordingly, Morgan Stanley Asia Limited does not satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

UBS Securities Hong Kong Limited and Merrill Lynch Far East Limited satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

EMPLOYMENT OF CHIEF EXECUTIVE OFFICER'S FAMILY MEMBER IN UBS

Our Company noted that there was media coverage in relation to the employment of an immediate family member of our Chief Executive Officer and Executive Director in UBS. This family member has been an employee in the equity capital markets division of UBS AG, Hong Kong Branch since October 2013. Our Company went through a vigorous process in the selection of the sponsors and underwriters to the Global Offering from late 2012 to October 2013, and the Joint Sponsors and Underwriters were selected based on their track record in handling initial public offerings in Hong Kong, their industry experiences, their marketing and distribution capability, and the commercial terms offered by them. All of the Joint Sponsors were formally appointed in January 2014. The aforementioned family member was never involved in the management of our Group nor in the Global Offering (including the selection of sponsors and underwriters), and therefore our Company does not believe such employment would affect the independence of UBS Securities Hong Kong Limited as a Joint Sponsor. We have not authorized any such press and media reports.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

UNDERWRITING

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises (subject to adjustment and the Over-allotment Option):

- (a) the Hong Kong Public Offering of 281,728,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Hong Kong Public Offering”; and
- (b) the International Offering of an aggregate of 2,535,536,000 Shares (comprising 1,761,272,000 new Shares and 774,264,000 Sale Shares and subject to adjustment as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A.

Investors may apply for the Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Shares under the International Offering, but may not do both.

The number of Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the subsection headed “The Hong Kong Public Offering—Reallocation” below.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

We are initially offering 281,728,000 Shares at the Offer Price, representing approximately 10% of the Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Shares initially offered under the Hong Kong Public Offering will represent approximately 1.10% of our Company’s enlarged issued share capital immediately after completion of the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection below headed “Conditions of the Global Offering.”

Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same

STRUCTURE OF THE GLOBAL OFFERING

number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes as follows:

- Pool A: The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. Any odd board lots will be allocated to Pool A; and
- Pool B: The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) and up to the value of Pool B.

For the purpose of this paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 140,864,000 Offer Shares are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Public Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 845,180,000 Offer Shares (in the case of (i)), 1,126,908,000 Offer Shares (in the case of (ii)) and 1,408,632,000 Offer Shares (in the case of (iii)) representing approximately 30%, 40%, and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

THE INTERNATIONAL OFFERING

Number of Shares Initially Offered

Subject to the reallocation as described above, the number of Shares to be initially offered under the International Offering will be 2,535,536,000 Shares (comprising 1,761,272,000 new Shares and 774,264,000 Sale Shares), representing approximately 90% of the Offer Shares under the Global Offering. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Shares initially offered under the International Offering will represent approximately 9.93% of our Company's enlarged issued share capital immediately after completion of the Global Offering.

Allocation

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on behalf of our Company and the Selling Shareholders by the International Underwriters or through selling agents appointed by them. International Offer Shares will be selectively placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, Shares after the listing of the Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of Shares on a basis which would lead to the establishment of a solid shareholder base which would be to our benefit and to that of the shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, it is expected that the Over-allotment Option Grantors will grant the Over-allotment Option to the International Underwriters, which is exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators at any time from the date of the International Underwriting Agreement to Saturday, July 12, 2014, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require the Over-allotment Option Grantors to sell up to 422,588,000 Shares, representing approximately 15% of the initial Offer Shares, at the same price per Share under the International Offering, to cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional International Offer Shares will represent approximately 1.66% of our enlarged total issued share capital immediately following the completion of the Global Offering. In the event that the Over-allotment Option is exercised, a public announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and may be discontinued at any time, and is required to be brought to an end after a limited period.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in our Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it and selling in the open market, may have an adverse impact on the market price of our Shares;

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- no stabilizing action can be taken to support the price of our Shares for longer than the stabilization period which will begin on the Listing Date, and is expected to expire on Saturday, July 12, 2014, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, acquiring the Offer Shares.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Joint Global Coordinators, its affiliates or any person acting for it may cover such over-allocation by, among other methods, using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangements mentioned below or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold pursuant to the exercise in full of the Over-allotment Option, being 422,588,000 Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may, itself or through its affiliate, borrow up to 422,588,000 Shares from Driven Goal pursuant to the Stock Borrowing Agreement. The stock borrowing arrangements under the Stock Borrowing Agreement will comply with the requirements set out in Listing Rule 10.07(3).

PRICING AND ALLOCATION

Determining the Offer Price

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, June 13, 2014 and in any event on or before Wednesday, June 18, 2014, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) and our Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

STRUCTURE OF THE GLOBAL OFFERING

Offer Price Range

The Offer Price will be not more than HK\$2.25 per Share and is expected to be not less than HK\$1.75 per Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

Price Payable on Application

Applicants for Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$2.25 for each Hong Kong Offer Share (plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%). If the Offer Price is less than HK\$2.25, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

If, for any reason, our Company and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) are unable to reach agreement on the Offer Price on or before Wednesday, June 18, 2014, the Global Offering will not proceed and will lapse.

Reduction in Indicative Offer Price Range and/or Number of Offer Shares

The Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the Underwriters), may where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, reduce the indicative offer price range and/or the number of Offer Shares below those stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.tianhechem.com) notices of the reduction. Upon issue of such a notice, the revised indicative offer price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) and our Company will be fixed within such revised range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as

STRUCTURE OF THE GLOBAL OFFERING

stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

Announcement of Offer Price and Basis of Allocations

The final Offer Price, the level of indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Thursday, June 19, 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.tianhechem.com).

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on:

- the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (subject only to allotment) and upon the exercise of the options which may be granted under the Share Option Scheme and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange;
- the Offer Price having been duly agreed between us and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters);

STRUCTURE OF THE GLOBAL OFFERING

- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the other Hong Kong Underwriters) on or before Wednesday, June 18, 2014, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the subsection headed “How to Apply for the Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates will only become valid at 8:00 a.m. on Friday, June 20, 2014, provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised.

ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

STRUCTURE OF THE GLOBAL OFFERING

All necessary arrangements have been made enabling the Shares to be admitted into the Central Clearing and Settlement System, or CCASS.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on June 20, 2014, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on June 20, 2014.

The Shares will be traded in board lots of 2,000 Shares each.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application. The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion, and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, June 9, 2014 until 12:00 noon on Thursday, June 12, 2014 from:

- (1) any of the following offices of the Hong Kong Underwriters:

Morgan Stanley Asia Limited	Level 46, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
UBS AG, Hong Kong Branch	52/F, Two International Finance Centre 8 Finance Street, Central, Hong Kong
Merrill Lynch Far East Limited	15/F, Citibank Tower, 3 Garden Road Central, Hong Kong
Goldman Sachs (Asia) L.L.C.	68/F, Cheung Kong Center 2 Queen's Road Central Central, Hong Kong
BOCI Asia Limited	26/F, Bank of China Tower 1 Garden Road, Central, Hong Kong
ICBC International Securities Limited	37/F, ICBC Tower, 3 Garden Road Hong Kong
Investec Capital Asia Limited	Suite 3609, 36 th Floor Two International Finance Centre 8 Finance Street, Central, Hong Kong
First Shanghai Securities Limited	1905 Wing On House 71 Des Voeux Road Central Hong Kong
Pacific Foundation Securities Limited	11/F New World Tower II 16-18 Queen's Road Central Hong Kong

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(2) or any of the following branches of the following receiving banks:

Bank of China (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai
	Taikoo Shing Branch	Shop G1006, Hoi Sing Mansion, Taikoo Shing
Kowloon	Metro City Branch	Shop 209, Level 2, Metro City, Phase 1, Tseung Kwan O
	Mei Foo Mount Sterling Mall Branch	Shop N47-49 Mount Sterling Mall, Mei Foo Sun Chuen
	Mong Kok Branch	589 Nathan Road, Mong Kok
New Territories	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long
	Sheung Shui Branch	136 San Fung Avenue, Sheung Shui
	Securities Services Centre	

Industrial and Commercial Bank of China (Asia) Limited

	Branch Name	Address
Hong Kong Island	Central Branch	1/F, 9 Queen's Road Central
	Hennessy Road Branch	Shop 2A, G/F & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay
	North Point Branch	G/F, 436-438 King's Road, North Point
Kowloon	Hung Hom Branch	Shop 2A, G/F, Hung Hom Shopping Mall, 2-34E Tak Man Street, Hung Hom
	Tsimshatsui East Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui
	Kwun Tong Branch	Shop 5 & 6, 1/F, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong
New Territories	Shatin Branch	Shop 22J, Level 3, Shatin Centre
	Tsuen Wan Castle Peak Road Branch	G/F, 423-427 Castle Peak Road Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, June 9, 2014 until 12:00 noon on Thursday, June 12, 2014 from:

- the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Bank of China (Hong Kong) Nominees Limited—Tianhe Chemicals Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Monday, June 9, 2014—9:00 a.m. to 5:00 p.m.
Tuesday, June 10, 2014—9:00 a.m. to 5:00 p.m.
Wednesday, June 11, 2014—9:00 a.m. to 5:00 p.m.
Thursday, June 12, 2014—9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, June 12, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund check(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider by you or by any one as your agent or by any other person; and

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- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company.

If you apply through the designated website, you authorize the White Form eIPO Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the White Form eIPO Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, June 9, 2014 until 11:30 a.m. on Thursday, June 12, 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, June 12, 2014 or such later time under the “Effects of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

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Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “Tianhe Chemicals Group Limited” **White Form eIPO** application submitted via the www.eipo.com.hk to support the funding of “Source of DongJiang—Hong Kong Forest” project initiated by “Friends of the Earth (HK)”.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
 - confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
 - agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
 - agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
 - agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, June 9, 2014—9:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, June 10, 2014—8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, June 11, 2014—8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, June 12, 2014—8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, June 9, 2014 until 12:00 noon on Thursday, June 12, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, June 12, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the

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Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, June 12, 2014.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple application for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for **each** beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

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“**Unlisted company**” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering—Pricing and Allocation”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, June 12, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, June 12, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, June 19, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at www.tianhechem.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at www.tianhechem.com and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Thursday, June 19, 2014;
- from the designated results of allocations website at www.iporesults.com.hk with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, June 19, 2014 to 12:00 midnight on Wednesday, June 25, 2014;
- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, June 19, 2014 to Sunday, June 22, 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, June 19, 2014 to Saturday, June 21, 2014 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or are suspected of making multiple applications;
 - you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
 - your Application Form is not completed in accordance with the stated instructions;
 - your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
 - your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
 - the Underwriting Agreements do not become unconditional or are terminated;
 - the Company or the Joint Global Coordinators believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations;
- or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$2.25 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering—Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, June 19, 2014.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic **application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first named applicant (if you are joint applicants), may be printed on your refund check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund checks and share certificates are expected to be posted on or around Thursday, June 19, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier’s order(s).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Share certificates will only become valid 8:00 a.m. on Friday, June 20, 2014 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a **WHITE** Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund check(s) and/or share certificate(s) from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 19, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund check(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, June 19, 2014, by ordinary post and at your own risk.

(ii) If you apply using a **YELLOW** Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above.

If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) will be sent to the address on the relevant Application Form on Thursday, June 19, 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Thursday, June 19, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Offer Shares credited to your designated CCASS participant’s stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- **If you are applying as a CCASS Investor Participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 19, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

- (iii) **If you apply through the White Form eIPO service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 19, 2014, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund checks.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, June 19, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.

- (iv) **If you apply via Electronic Application Instructions to HKSCC**

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, June 19, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “Publication of Results” above on Thursday, June 19, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 19, 2014 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Thursday, June 19, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, June 19, 2014.

15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, for the purpose of incorporation in this prospectus.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

9 June 2014

The Directors

Tianhe Chemicals Group Limited

Morgan Stanley Asia Limited

UBS Securities Hong Kong Limited

Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Tianhe Chemicals Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2013 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 10 March 2013 in connection with the initial public offering and listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Prospectus”).

The Company was incorporated on 8 March 2007 in the British Virgin Islands (the “BVI”) as a BVI business company with limited liability under the BVI Business Companies Act 2004. Pursuant to a corporate reorganisation, as described more fully in the section headed “Our History and Corporate Structure” in the Prospectus (the “Reorganisation”), the Company became the holding company of the Group on 12 February 2010.

The Company and its subsidiaries have adopted 31 December as their financial year end date. As at the date of this report, the Company has direct and indirect interests in the following companies comprising the Group:

Name of company	Date and place of incorporation/ establishment	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			At 31 December			At the date of this report	
			2011	2012	2013		
Advanced Grade International Limited (“Advanced Grade”)	5 January 2007 BVI	100 ordinary shares of United States dollars (“US\$”) 0.01 each	100%	100%	100%	100%	Investment holding
Vivid Rise Investment Limited (“Vivid Rise”)	8 March 2011 BVI	100 ordinary shares of US\$0.01 each	100%	100%	100%	100%	Investment holding
TurboRICH Group Limited (“TurboRICH”)	8 March 2011 BVI	100 ordinary shares of US\$0.01 each	100%	100%	100%	100%	Investment holding
China Vision International Limited (“China Vision”)	18 February 2011 Hong Kong	1,000 shares Hong Kong dollars (“HK\$”) 1,000	100%	100%	100%	100%	Investment holding
China Venture International Development Limited (“China Venture”)	23 February 2011 Hong Kong	1,000 shares HK\$1,000	100%	100%	100%	100%	Investment holding
阜新恒通氟化學有限公司 Fuxin Hengtong Fluoride Chemicals Co., Ltd. * (“Fuxin Hengtong”)	30 August 2004 People’s Republic of China (“PRC”)	Registered capital Renminbi (“RMB”) 80,000,000	100%	100%	100%	100%	Manufacturing of specialty fluorochemicals
錦州惠發天合化學有限公司 Jinzhou DPF-TH Chemicals Co., Ltd.* (“Jinzhou DPF-TH”)	15 May 2007 PRC	Registered capital US\$107,450,000	100%	100%	100%	100%	Manufacturing of lubricant additives and specialty fluorochemicals
中北石油化工有限公司 North China Petrochemical Co., Ltd.* (“North China”)	27 April 2010 PRC	Registered capital US\$60,000,000	100%	100%	100%	100%	Not yet commence business
中亞石化科技有限公司 Sino-Asia Petrochemical Technology Co., Ltd. * (“Sino Asia”)	28 April 2010 PRC	Registered capital US\$50,000,000	100%	100%	100%	100%	Not yet commence business
錦州惠發天合置業有限公司 Jinzhou Huifan Tianhe Zhiye Co., Ltd.* (“Tianhe Zhiye”)	19 March 2013 PRC	Registered capital RMB8,000,000	—	—	100%	100%	Not yet commence business
Tianhe Services (Singapore) Pte. Ltd.	7 March 2014 Singapore	1,000 ordinary shares of Singapore dollars (“S\$”) 0.01 each	—	—	—	100%	Not yet commence business

* The English names of these companies which were established in the PRC are for reference only and have not been registered.

Note: none of the subsidiaries had issued any debt securities at the end of each reporting period or at any time during the Relevant Periods.

The consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards (“IFRSs”) were audited by Moores Rowland Certified Public Accountants for the year ended 31 December 2011 and Deloitte Touche Tohmatsu Certified Public Accountants LLP for the year ended 31 December 2012 and 2013.

The statutory financial statements of the Company’s subsidiaries established/incorporated in the PRC or Hong Kong respectively were prepared in accordance with the relevant accounting policies and financial regulations applicable to entities established in the PRC (the “PRC GAAP”) or Hong

Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") respectively and were audited by respective certified public accountants registered in the PRC and Hong Kong, respectively. Details are as follows:

<u>Name of subsidiary</u>	<u>Financial period/year ended</u>	<u>Name of auditors</u>
China Vision	31 December 2011 and 2012	Sky Trend CPA Limited
China Venture	31 December 2011 and 2012	Sky Trend CPA Limited
Jinzhou DPF-TH	31 December 2011	Moores Rowland Certified Public Accountants
	31 December 2012 and 2013	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Fuxin Hengtong	31 December 2011 and 2012	Liaoning Zhongheng Certified Public Accountants Co., Ltd.
North China	31 December 2011 and 2012	Liaoning Zhongheng Certified Public Accountants Co., Ltd.
Sino Asia	31 December 2011 and 2012	Guangxi Jiahai Certified Public Accountants Co., Ltd.

Except as disclosed above, the statutory financial statements of the above companies and Tianhe Zhiye incorporated/established in Hong Kong and in the PRC for the year/period ended 31 December 2013 have not been issued as they are not yet due for issuance as of the date of this report.

No audited financial statements have been prepared for the Company's subsidiaries which were incorporated in the BVI as they were incorporated in a jurisdiction where there is no statutory audit requirement.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with IFRSs (the "Underlying Financial Statements"). The Underlying Financial Statements have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("IAASB").

We have examined the Underlying Financial Statements and performed such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the Directors who approved their issue. The Directors are also responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

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 Company and of the Group as at 31 December 2011, 2012 and 2013 and of the consolidated results and consolidated cash flows of the Group for each of the Relevant Periods.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
Revenue	5	3,359,368	4,192,553	5,033,795
Cost of sales		(1,869,454)	(1,651,300)	(1,986,805)
Gross profit		1,489,914	2,541,253	3,046,990
Other income	6	13,172	146,369	177,102
Other gains and losses	7	(217,090)	1,482	37,205
Selling and distribution expenses		(7,176)	(8,822)	(12,076)
Administrative expenses		(67,223)	(64,549)	(75,008)
Other expenses	8	(29,407)	(6,972)	(10,572)
Finance costs	9	(17,970)	(55,105)	(63,234)
Profit before taxation	10	1,164,220	2,553,656	3,100,407
Income tax expenses	12	(216,109)	(363,692)	(474,178)
Profit and total comprehensive income for the year attributable to the owners of the Company:		948,111	2,189,964	2,626,229
Basic earnings per share, in RMB cents	13	4.0	9.3	11.2

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Non-current assets				
Property, plant and equipment	15	1,499,549	1,813,530	4,155,452
Prepaid lease payments	16	744,226	727,122	952,424
Intangible assets	17	300,621	281,281	246,673
Deposits paid for acquisition of non-current assets	18	293,124	2,108,733	2,073,306
Deferred tax assets	19	5,875	5,634	8,080
Amount due from a related party	35(d)	637,880	731,871	—
		<u>3,481,275</u>	<u>5,668,171</u>	<u>7,435,935</u>
Current assets				
Inventories	20	157,609	321,639	305,583
Trade and bills receivables	21	71,965	54,992	138,253
Other receivables, deposits and prepayments	22	129,155	62,976	46,444
Amounts due from related parties	35(d)	255,893	333,802	813,744
Income tax recoverable		3,151	4,257	10,080
Value-added tax recoverable		2,163	37,498	195,917
Prepaid lease payments	16	17,859	17,764	20,944
Bank deposits	23	15,000	556,000	456,000
Cash and cash equivalents	24	425,717	254,634	984,832
		<u>1,078,512</u>	<u>1,643,562</u>	<u>2,971,797</u>
Current liabilities				
Trade and other payables	25	149,518	143,365	166,512
Amounts due to related parties	35(d)	18,903	—	172,473
Income tax payable		4,502	3,258	7,380
Bank borrowings — due within one year	26	335,934	985,866	1,281,030
Dividends payable	35(d)	2,237	2,237	2,237
Shareholder's loans	35(e)	1,301,362	1,270,506	1,234,862
		<u>1,812,456</u>	<u>2,405,232</u>	<u>2,864,494</u>
Net current (liabilities) assets		<u>(733,944)</u>	<u>(761,670)</u>	<u>107,303</u>
Total assets less current liabilities		<u>2,747,331</u>	<u>4,906,501</u>	<u>7,543,238</u>
Non-current liabilities				
Bank borrowings — due after one year	26	97,769	69,788	43,109
Deferred tax liabilities	19	162	162	40,162
Deferred income	27	11,986	9,173	6,360
		<u>109,917</u>	<u>79,123</u>	<u>89,631</u>
Net assets		<u>2,637,414</u>	<u>4,827,378</u>	<u>7,453,607</u>
Capital and reserves				
Share capital	28	3	3	3
Reserves		<u>2,637,411</u>	<u>4,827,375</u>	<u>7,453,604</u>
Total equity		<u>2,637,414</u>	<u>4,827,378</u>	<u>7,453,607</u>

COMPANY STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Non-current assets				
Investments in subsidiaries	30	372,913	372,913	372,913
Amounts due from subsidiaries	35(d)	1,239,653	1,281,875	—
		<u>1,612,566</u>	<u>1,654,788</u>	<u>372,913</u>
Current assets				
Other receivables		—	—	650
Amounts due from subsidiaries	35(d)	—	—	1,323,451
Cash and cash equivalents		2	—	—
		<u>2</u>	<u>—</u>	<u>1,324,101</u>
Current liabilities				
Other payables		39	—	—
Shareholder's loans	35(e)	1,301,362	1,261,952	1,224,735
		<u>1,301,401</u>	<u>1,261,952</u>	<u>1,224,735</u>
Net current (liabilities) assets		<u>(1,301,399)</u>	<u>(1,261,952)</u>	<u>99,366</u>
Total assets less current liabilities		<u>311,167</u>	<u>392,836</u>	<u>472,279</u>
Net assets		<u>311,167</u>	<u>392,836</u>	<u>472,279</u>
Capital and reserves				
Share capital	28	3	3	3
Reserves	29	311,164	392,833	472,276
Total equity		<u>311,167</u>	<u>392,836</u>	<u>472,279</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note a)	Safety reserve RMB'000 (Note b)	Other reserves RMB'000 (Note c)	Retained earnings RMB'000	
At 1 January 2011	3	396,177	150,653	4,899	9,785	1,127,786	1,689,303
Profit and total comprehensive income for the year	—	—	—	—	—	948,111	948,111
Appropriation to statutory reserve	—	—	115,763	—	—	(115,763)	—
Appropriation of safety reserve . .	—	—	—	3,353	—	(3,353)	—
At 31 December 2011	3	396,177	266,416	8,252	9,785	1,956,781	2,637,414
Profit and total comprehensive income for the year	—	—	—	—	—	2,189,964	2,189,964
Appropriation to statutory reserve	—	—	109,280	—	—	(109,280)	—
Appropriation of safety reserve . .	—	—	—	3,747	—	(3,747)	—
Utilisation of safety reserve	—	—	—	(19)	—	19	—
At 31 December 2012	3	396,177	375,696	11,980	9,785	4,033,737	4,827,378
Profit and total comprehensive income for the year	—	—	—	—	—	2,626,229	2,626,229
Appropriation of safety reserve . .	—	—	—	3,813	—	(3,813)	—
Utilisation of safety reserve	—	—	—	(4)	—	4	—
At 31 December 2013	3	396,177	375,696	15,789	9,785	6,656,157	7,453,607

Notes:

(a) Statutory reserve

In accordance with relevant rules and regulation in the PRC and provisions within the articles of association of those companies established in the PRC, each of the PRC subsidiaries is required to transfer 10% of the profit after taxation determined under PRC GAAP to the statutory reserve until the balance reach 50% of the registered capital. Such reserve can be used to reduce any losses incurred or to increase paid-in capital of respective companies. Except for the reduction of losses incurred, any other usage should not result in the reserve balance falling below 25% of the registered capital.

(b) Safety reserve

Pursuant to the relevant regulation in the PRC, a subsidiary of the Company is required to provide for safety reserve based on annual sales revenue.

(c) Other reserves

Included in the other reserves was an amount of RMB 9,785,000 represented expenses of the Group paid by a related company. The arrangement was considered as a deemed capital contribution and recorded as other reserves of the Group.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES				
Profit before tax		1,164,220	2,553,656	3,100,407
Adjustments for:				
Depreciation		107,595	112,023	135,837
Reversal of allowance on doubtful receivables, net		—	(316)	(34)
Release of prepaid lease payments		6,769	5,240	3,459
Amortisation of intangible assets		18,048	30,432	34,608
Release of government grants to income		(2,813)	(2,813)	(2,813)
Loss on disposal of non-current assets		6,575	516	197
Loss on disposal of marine fuel assets		283,074	—	—
Interest income		(7,799)	(7,545)	(20,211)
Finance costs		17,970	55,105	63,234
Net exchange gain		(67,432)	(3,104)	(38,053)
Imputed interest income on amount due from a related party		—	(134,292)	(146,375)
Movements in working capital				
(Increase) decrease in inventories		(53,267)	(164,030)	16,056
(Increase) decrease in trade and bill receivables		(38,005)	17,465	(83,227)
(Increase) decrease in amounts due from related parties		(7,393)	61,802	—
Increase in other receivables and prepayments and value-added tax recoverable		(64,371)	(19,642)	(159,177)
Increase (decrease) in trade and other payables		26,236	538	(160)
Net cash generated from operations		1,389,407	2,505,035	2,903,748
Income tax paid		(201,000)	(365,801)	(438,325)
Interest received		7,799	7,545	20,211
Net cash generated from operating activities		1,196,206	2,146,779	2,485,634
INVESTING ACTIVITIES				
Cash paid for acquisition of:				
— Property, plant and equipment		(1,295,794)	(1,945,344)	(2,521,964)
— Prepaid lease payments		(26,126)	(291,500)	(128,758)
— Intangible assets		(79,705)	(11,092)	—
Payment for bidding deposits		(32,240)	(24,290)	—
Refund of bidding deposits		—	74,600	17,290
Proceeds from disposal of marine fuel assets		20,000	40,301	64,502
Proceeds from disposal of non-current assets		1,881	226	90
Withdrawal of bank deposits		15,000	271,000	1,262,000
Placement of bank deposits		(30,000)	(812,000)	(1,162,000)
Advance to related parties, net		(139,102)	(198,664)	—
Repayment from related parties, net		—	58,953	333,802
Net cash used in investing activities		(1,566,086)	(2,837,810)	(2,135,038)
FINANCING ACTIVITIES				
Interests paid		(13,970)	(55,345)	(63,764)
Interests paid to related party		(4,505)	—	—
Repayment of shareholder's loans		(50,407)	(36,240)	2,478
Proceeds from shareholder's loans		29,257	8,554	—
Advance from related parties		18,903	—	172,473
Repayment to a related party		—	(18,903)	—
New bank borrowings raised		306,573	958,000	1,542,000
Repayment of bank borrowings		(114,354)	(336,098)	(1,272,679)
Repayment of entrusted loans		(189,902)	—	—
Net cash (used in) generated from financing activities		(18,405)	519,968	380,508
Net (decrease) increase in cash and cash equivalents		(388,285)	(171,063)	731,104
Cash and cash equivalents at beginning of year		814,113	425,717	254,634
Effect of foreign exchange rate changes		(111)	(20)	(906)
Cash and cash equivalents at end of the year	24	425,717	254,634	984,832

B. NOTES TO FINANCIAL INFORMATION**1. GENERAL INFORMATION**

The Company was incorporated as a BVI business company with limited liability on 8 March 2007. The registered office of the Company is located at Offshore Incorporations Centre, Road Town, Tortola, the BVI. On 15 March 2013, the board of directors of the Company approved the change of the Company's name from Inspeed International Limited to Tianhe Chemicals Group Limited.

The Company's immediate holding company is Driven Goal Ltd., incorporated in the BVI. The Company's ultimate holding company is Elite Choice Properties Limited, also incorporated in the BVI.

The Company is an investment holding company. The principal activities of the subsidiaries are manufacturing and sale of fine chemical products. The two major product groups are (i) lubricant additives; and (ii) specialty fluorochemicals.

The Financial Information is presented in RMB, which is also the functional currency of the Company.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently applied International Accounting Standards ("IASs"), IFRSs, amendments to standards and the related interpretations ("IFRICs") which are effective for its annual period beginning on 1 January 2013 throughout the Relevant Periods.

At the date of this report, the following new standards, amendments to standards and interpretation have been issued but are not yet effective:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ⁽¹⁾
Amendments to IFRS 11	Accounting for Acquisitions of interests in Joint Operations ⁽⁶⁾
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁽⁶⁾
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions ⁽²⁾
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures ⁽³⁾
IFRS 9	Financial Instruments ⁽³⁾
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ⁽¹⁾
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets ⁽¹⁾
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting ⁽¹⁾
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle ⁽⁴⁾
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle ⁽²⁾
IFRS 14	Regulatory Deferral Accounts ⁽⁵⁾
IFRS 15	Revenue from Contracts with Customers ⁽⁷⁾
IFRIC 21	Levies ⁽¹⁾

Notes:

- (1) Effective for annual periods beginning on or after 1 January 2014
- (2) Effective for annual periods beginning on or after 1 July 2014
- (3) Available for application — the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
- (4) Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
- (5) Effective for first annual IFRS financial statements beginning on or after 1 January 2016.
- (6) Effective for annual periods beginning on or after 1 January 2016.
- (7) Effective for annual periods beginning on or after 1 January 2017.

B. NOTES TO FINANCIAL INFORMATION (continued)**2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

The Group has not early applied the new standards, amendments to standards or interpretation in the preparation of the Financial Information.

The Directors anticipate that the application of the new standards, amendments to standards and interpretation will have no material impact on the Financial Information of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, as explained in the accounting policies below which are in conformity with IFRSs.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Relevant Periods are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control or until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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, net of discounts and sales related taxes.

B. NOTES TO FINANCIAL INFORMATION (continued)**3. SIGNIFICANT ACCOUNTING POLICIES (continued)***Revenue recognition (continued)**Sale of goods*

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

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.

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 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 liabilities and as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis.

B. NOTES TO FINANCIAL INFORMATION (continued)**3. SIGNIFICANT ACCOUNTING POLICIES (continued)***Foreign currencies*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on settlement of monetary items, and on retranslation of monetary item are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit under the state-managed retirement benefits schemes in the PRC are charged as an expense when employees have rendered services entitling them to the contributions.

B. NOTES TO FINANCIAL INFORMATION (continued)**3. SIGNIFICANT ACCOUNTING POLICIES (continued)***Taxation*

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statements of profit or loss and other 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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 those deductible temporary differences can be recognised. 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 accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary differences 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 are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to recognise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

B. NOTES TO FINANCIAL INFORMATION (continued)**3. SIGNIFICANT ACCOUNTING POLICIES (continued)***Property, plant and equipment*

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

Construction in progress represents properties in the course of construction for production, supply or administrative purposes is carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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.

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 of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 profit or loss when the item is derecognised.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

*Intangible assets**Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets-research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

B. NOTES TO FINANCIAL INFORMATION (continued)**3. SIGNIFICANT ACCOUNTING POLICIES (continued)***Intangible assets (continued)**Internally-generated intangible assets-research and development expenditure (continued)*

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment loss on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

B. NOTES TO FINANCIAL INFORMATION (continued)**3. SIGNIFICANT ACCOUNTING POLICIES (continued)***Impairment loss on tangible and intangible assets (continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Investment in subsidiary

Investment in subsidiary is included in the Company's statements of financial position at cost less any impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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 period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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.

B. NOTES TO FINANCIAL INFORMATION (continued)**3. SIGNIFICANT ACCOUNTING POLICIES (continued)***Financial assets (continued)**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, amounts due from related parties, subsidiaries, 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 on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

For loans and receivables, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade 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 Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables which 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 other 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 trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For loans and receivables, 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 loss 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 original carrying amount would have been had the impairment not been recognised.

B. NOTES TO FINANCIAL INFORMATION (continued)**3. SIGNIFICANT ACCOUNTING POLICIES (continued)***Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liabilities (including trade and other payables, amount due to related parties, bank borrowings, dividends payable and shareholder's loans) are subsequently measured at amortised cost using effective interest method.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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 liability, or, where appropriate, a shorter period to net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

B. NOTES TO FINANCIAL INFORMATION (continued)**4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies which are described in note 3, the Group are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. Estimates and judgments are continuously evaluated and are based on historical experience and other relevant factors.

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

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

Impairment, useful lives and residual values of property, plant and equipment

The Directors assess whether there are any indicators of impairment for an asset at the end of each financial reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. The Directors would consider the extent of physical damage and technical obsolescence to assess whether the indicators of impairment for an item of property, plant and machinery exist.

Useful lives and residual values are reviewed by the Directors at the end of each financial reporting period. In determining the useful life and residual value of an item of property, plant and equipment, the Directors consider various factors, such as technical or commercial obsolescence arising from changes in production, or from a change in the market demand for the product output of the plant and machinery, expected usage of the plant and machinery, expected physical wear and tear, the care and maintenance of the plant and machinery, and legal or similar limits on the use of the plant and machinery. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation would be made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation.

At 31 December 2011, 31 December 2012 and 31 December 2013 the property, plant and equipment of the Group amounted to approximately RMB1,499,549,000, RMB1,813,530,000 and RMB4,155,452,000, respectively. Any change in the Directors' assessment on impairment, useful lives and residual values of property, plant and equipment will affect the depreciation and the impairment loss to be charged in the profit or loss on a prospective basis.

Impairment losses of intangible assets

In considering the impairment losses that may be required for intangible assets of the Group, recoverable amount of the asset needs to be determined. The recoverable amount is the higher of the fair value less costs to disposal and the value in use. In determining the value in use, expected cash flow generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of sales volume, selling price and amount of operating costs. Any

B. NOTES TO FINANCIAL INFORMATION (continued)**4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)***Impairment losses of intangible assets (continued)*

changes in Directors estimates of sales volume, selling price and amount of operating costs or actual sales volume, selling price and amount of operating costs are different to original estimates which indicates a lower recoverable amount, an impairment loss on intangible assets may arise.

At 31 December 2011, 31 December 2012 and 31 December 2013 the intangible assets of the Group amounted to approximately RMB300,621,000, RMB281,281,000 and RMB246,673,000, respectively.

Impairment on doubtful receivables

In determining whether there is objective evidence of impairment loss on doubtful receivables, the Directors consider the aged analysis of trade and other receivables and amounts due from related parties and estimation of future cash flows to be recovered from these receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer or debtor. The amount of the impairment on doubtful receivables 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, an impairment on doubtful receivables may arise.

At 31 December 2011, 31 December 2012 and 31 December 2013, an allowance on doubtful receivables amounting to approximately RMB808,000, RMB492,000 and RMB258,000, respectively, was recognised by the Group. At 31 December 2011, 31 December 2012 and 31 December 2013, the Group's total outstanding trade and other receivables and amounts due from related parties net of impairment amounted to approximately RMB969,467,000, RMB1,125,895,000 and RMB957,431,000, respectively.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sale of goods, net of discounts and sales related taxes.

The Group is organised based on the types of products manufactured and sold. These are the basis of information that is prepared and reported to the Group's chief operating decision maker (i.e. the Executive Directors of the Company) to make strategic decisions. The Group's operating segments under IFRS 8 Operating Segments are identified as the following two product groups of:

- Lubricant additives: this segment produces and sells lubricant additives products.
- Specialty fluorochemicals: this segment produces and sells specialty fluorochemicals.

The accounting policies applied in determining segment revenue and segment results of the operating segments are the same as the Group's accounting policies described in note 3 above.

B. NOTES TO FINANCIAL INFORMATION (continued)**5. REVENUE AND SEGMENT INFORMATION (continued)**

Segment profit represents the profit earned by each segment without allocation of interest income, auditor's remuneration, directors' remunerations and income tax expenses, certain part of finance costs, depreciation, release of prepaid lease payments, administrative expenses, other expenses and other gains and losses not attributable to respective segment. This is the measure reported to the Group's chief operating decision maker for the purpose of resources allocation and performance assessment.

All assets are allocated to operating segments other than deferred tax assets, other receivables, deposits and prepayments, income tax recoverable, bank deposits and cash and cash equivalents, certain part of property, plant and equipment, prepaid lease prepayments, deposits paid for acquisition of non-current assets, amounts due from related parties, inventories and value-added tax recoverable not attributable to respective segment.

All liabilities are allocated to operating segments other than amounts due to related parties, income tax payable, dividends payable, shareholder's loans and deferred tax liabilities, certain part of other payables and bank borrowings not attributable to respective segment.

Inter-segment sales are priced with reference to prices charged to external parties for similar products.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

	Lubricant additives	Specialty fluorochemicals	Total
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011			
Revenue	1,817,006	1,542,362	3,359,368
Segment profit	454,368	1,012,162	1,466,530
Year ended 31 December 2012			
Revenue	1,774,503	2,418,050	4,192,553
Segment profit	468,705	2,053,051	2,521,756
Year ended 31 December 2013			
Revenue	2,063,112	2,970,683	5,033,795
Segment profit	557,224	2,471,047	3,028,271

B. NOTES TO FINANCIAL INFORMATION (continued)
5. REVENUE AND SEGMENT INFORMATION (continued)
(a) Segment revenue and results (continued)

Reconciliations of segment result to profit before taxation

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Revenue			
Segment revenue	3,359,368	4,192,553	5,033,795
Profit			
Segment profit	1,466,530	2,521,756	3,028,271
Interest income	7,799	141,837	166,586
Finance costs	(13,017)	(49,274)	(55,638)
Depreciation	(6,314)	(7,866)	(11,751)
Release of prepaid lease payments	(3,812)	(3,165)	(3,159)
Administrative expenses	(51,143)	(47,478)	(55,745)
Other expenses	(23,567)	(3,247)	(1,629)
Other gains and losses	(210,840)	3,128	35,358
Auditor's remuneration	(1,140)	(1,750)	(1,600)
Directors' remunerations	(276)	(285)	(286)
Profit before taxation	<u>1,164,220</u>	<u>2,553,656</u>	<u>3,100,407</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**5. REVENUE AND SEGMENT INFORMATION (continued)**

(b) Segment assets and liabilities and reconciliation to the consolidated financial information

Segment assets and liabilities

	<u>Lubricant additives</u> RMB'000	<u>Specialty fluorochemicals</u> RMB'000	<u>Total</u> RMB'000
As at 31 December 2011			
Segment assets	2,415,414	553,309	2,968,723
Unallocated:			
Property, plant and equipment			69,315
Prepaid lease prepayments			93,855
Deposits paid for acquisition of non-current assets			5,920
Deferred tax assets			5,875
Amounts due from related parties			831,971
Inventories			9,760
Other receivables, deposits and prepayments			129,155
Income tax recoverable			3,151
Value-added tax recoverable			1,345
Bank deposits			15,000
Cash and cash equivalents			<u>425,717</u>
Consolidated total assets			<u>4,559,787</u>
Segment liabilities	147,742	14,094	161,836
Unallocated:			
Trade and other payables			79,668
Amount due to a related party			18,903
Income tax payable			4,502
Bank borrowings			353,703
Dividends payable			2,237
Shareholder's loans			1,301,362
Deferred tax liabilities			<u>162</u>
Consolidated total liabilities			<u>1,922,373</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**5. REVENUE AND SEGMENT INFORMATION (continued)**

(b) Segment assets and liabilities and reconciliation to the consolidated financial information (continued)

Segment assets and liabilities (continued)

	<u>Lubricant additives</u> RMB'000	<u>Specialty fluorochemicals</u> RMB'000	<u>Total</u> RMB'000
As at 31 December 2012			
Segment assets	3,987,649	812,637	4,800,286
Unallocated:			
Property, plant and equipment			172,664
Prepaid lease prepayments			90,847
Deposits paid for acquisition of non-current assets			293,624
Deferred tax assets			5,634
Amounts due from related parties			1,065,673
Inventories			2,819
Other receivables, deposits and prepayments			62,976
Income tax recoverable			4,257
Value-added tax recoverable			2,319
Bank deposits			556,000
Cash and cash equivalents			254,634
Consolidated total assets			<u>7,311,733</u>
Segment liabilities	150,045	12,612	162,657
Unallocated:			
Trade and other payables			69,881
Income tax payable			3,258
Bank borrowings			975,654
Dividends payable			2,237
Shareholder's loans			1,270,506
Deferred tax liabilities			162
Consolidated total liabilities			<u>2,484,355</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**5. REVENUE AND SEGMENT INFORMATION (continued)**

(b) Segment assets and liabilities and reconciliation to the consolidated financial information (continued)

Segment assets and liabilities (continued)

	<u>Lubricant additives</u> RMB'000	<u>Specialty fluorochemicals</u> RMB'000	<u>Total</u> RMB'000
As at 31 December 2013			
Segment assets	6,053,909	1,217,309	7,271,218
Unallocated:			
Property, plant and equipment			223,285
Prepaid lease prepayments			152,588
Deposits paid for acquisition of non-current assets			266,248
Deferred tax assets			8,080
Amounts due from related parties			813,744
Inventories			557
Other receivables, deposits and prepayments			46,444
Income tax recoverable			10,080
Value-added tax recoverable			174,656
Bank deposits			456,000
Cash and cash equivalents			984,832
Consolidated total assets			<u>10,407,732</u>
Segment liabilities	155,875	11,151	167,026
Unallocated:			
Trade and other payables			75,846
Amounts due to related parties			172,473
Income tax payable			7,380
Bank borrowings			1,254,139
Dividends payable			2,237
Shareholder's loans			1,234,862
Deferred tax liabilities			40,162
Consolidated total liabilities			<u>2,954,125</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**5. REVENUE AND SEGMENT INFORMATION (continued)**

(c) Other segment information

	Lubricant additives RMB'000	Specialty fluorochemicals RMB'000	Segment total RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment results:					
Year ended 31 December 2011					
Depreciation	73,421	27,860	101,281	6,314	107,595
Release of prepaid lease payments	2,657	300	2,957	3,812	6,769
Amortisation of intangible assets	12,463	5,585	18,048	—	18,048
Loss (gain) on disposal of property, plant and equipment	—	7,452	7,452	(877)	6,575
Finance costs	—	4,953	4,953	13,017	17,970
Year ended 31 December 2012					
Depreciation	76,291	27,866	104,157	7,866	112,023
Release of prepaid lease payments	1,775	300	2,075	3,165	5,240
Amortisation of intangible assets	12,464	17,968	30,432	—	30,432
Loss on disposal of property, plant and equipment	137	337	474	—	474
Loss on disposal of prepaid lease payments	42	—	42	—	42
Finance costs	—	5,831	5,831	49,274	55,105
Year ended 31 December 2013					
Depreciation	90,691	33,395	124,086	11,751	135,837
Release of prepaid lease payments	—	300	300	3,159	3,459
Amortisation of intangible assets	12,513	22,095	34,608	—	34,608
Loss on disposal of property, plant assets and equipment	35	162	197	—	197
Finance costs	—	7,596	7,596	55,638	63,234
Amounts included in the measure of segment non-current assets:					
Year ended 31 December 2011					
Addition of:					
Property, plant and equipment	529,820	39,952	569,772	252,621	822,393
Prepaid lease payments	71,569	—	71,569	320	71,889
Intangible assets	2,945	53,920	56,865	22,840	79,705
Deposits paid for acquisition of non- current assets	37,539	2,400	39,939	469,276	509,215
Year ended 31 December 2012					
Addition of:					
Property, plant and equipment	97,312	200,563	297,875	107,514	405,389
Prepaid lease payments	—	—	—	350	350
Intangible assets	—	11,092	11,092	—	11,092
Deposits paid for acquisition of non- current assets	1,525,673	9,010	1,534,683	302,091	1,836,774
Year ended 31 December 2013					
Addition of:					
Property, plant and equipment	877,294	1,380	878,674	43,001	921,675
Intangible assets	—	—	—	—	—
Deposits paid for acquisition of non- current assets	1,254,486	450,432	1,704,918	65,464	1,770,382

B. NOTES TO FINANCIAL INFORMATION (continued)**5. REVENUE AND SEGMENT INFORMATION (continued)**

(d) Revenue from major products

The following is an analysis of the Group's revenue from external customers:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Lubricant additives	1,817,006	1,774,503	2,063,112
Specialty fluorochemicals	1,542,362	2,418,050	2,970,683
	<u>3,359,368</u>	<u>4,192,553</u>	<u>5,033,795</u>

(e) Geographical information

The majority of the revenue and operating results of the Group is derived from the PRC. All the Group's non-current assets are principally located in the PRC based on the location of the relevant entities' operation for intangible assets and based on location of assets for other non-current assets (excluding deferred tax assets and financial instruments). Revenue from external customers that based on place of delivery are analysed below.

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
The PRC	3,290,939	4,089,844	4,787,761
Other countries	68,429	102,709	246,034
	<u>3,359,368</u>	<u>4,192,553</u>	<u>5,033,795</u>

(f) Revenue from major customers accounting for 10% or more of total revenue are as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Customer A (lubricant additives)	271,474	278,604	289,952
Customer A (specialty fluorochemicals)	557,525	674,536	1,195,497
	828,999	953,140	1,485,449
Customer B (lubricant additives)	1,080,791	1,046,298	1,065,054
Customer C (specialty fluorochemicals)	761,097	1,145,945	702,906

No other revenue from transactions with a single external customer amounted to 10% or more of the Group's revenue during the Relevant Periods.

B. NOTES TO FINANCIAL INFORMATION (continued)**6. OTHER INCOME**

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Government grants (Note)	2,560	1,719	7,703
Recognition of deferred government grants (note 27)	2,813	2,813	2,813
Interest income on bank deposits and bank balances	7,799	7,545	20,211
Imputed interest income on amount due from a related party (note 35(d)(ii))	—	134,292	146,375
	<u>13,172</u>	<u>146,369</u>	<u>177,102</u>

Note: The Group's businesses have been encouraged by the PRC government and certain subsidies have been provided by the PRC government. There are no unfulfilled conditions or contingencies relating to these grants. They have been recognised by the Group as income upon the receipt of these subsidies.

7. OTHER GAINS AND LOSSES

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Net exchange gain (Note (a))	71,082	2,941	36,859
Loss on disposal of property, plant and equipment	(6,575)	(474)	(197)
Loss on disposal of prepaid lease payments	—	(42)	—
Reversal of allowance on doubtful receivables, net	—	316	34
Net gain (loss) on disposal of testing products and others	1,345	(1,071)	1,144
Loss on disposal of marine fuel assets (Note (b))	(283,074)	—	—
Others	132	(188)	(635)
	<u>(217,090)</u>	<u>1,482</u>	<u>37,205</u>

Notes:

- (a) During the years ended 31 December 2011, 2012 and 2013, the amount mainly includes a gain arising on year-end retranslation of shareholder's loans denominated in US\$ due to the appreciation of RMB against US\$.
- (b) On 12 December 2011, Jinzhou DPF-TH entered into an asset transfer agreement with Jinzhou Heisenberg Petrochemical Equipment Technology Co., Ltd. ("Jinzhou Heisenberg"), a company controlled by Wei's family (Wei's family includes Mr. Wei Qi, Mr. Wei Xuan (Mr. Wei Qi's brother) and Ms. Wei Xiao (Mr. Wei Qi's daughter)) to dispose of its marine fuel assets mainly included prepayments to equipment suppliers and construction in progress. The total consideration of approximately RMB938,547,000, in which RMB20,000,000 have been settled in cash. The disposal loss amounted to approximately RMB283,074,000 was estimated as the difference between the fair value of the consideration of RMB657,880,000, including the cash payment RMB20,000,000, and the carrying amount of the disposed assets of RMB938,547,000 and related tax expenses of RMB2,407,000. The disposal was completed on 31 December 2011, on which date control of the marine fuel assets was passed to the acquirer. The amount and details of the consideration receivable were set out in note 35(d)(ii).

8. OTHER EXPENSES

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Research and development expenses	8,329	6,972	10,572
Professional fee expense (Note)	21,078	—	—
	<u>29,407</u>	<u>6,972</u>	<u>10,572</u>

Note: The amount represents mainly professional fees paid for the preparation of a listing of the Company's shares on the London Stock Exchange which was subsequently aborted.

B. NOTES TO FINANCIAL INFORMATION (continued)**9. FINANCE COSTS**

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Interest on bank borrowings	13,465	55,105	63,234
Interest on other loans (Note)	4,505	—	—
Total interest expense for financial liabilities wholly repayable within five years	<u>17,970</u>	<u>55,105</u>	<u>63,234</u>

Note: The amount represents interests on loans from 遼寧天合精細化工股份有限公司 Liaoning Tianhe Fine Chemicals Co., Ltd. ("Liaoning Tianhe"), a company controlled by Wei's family in the form of entrusted loans through banks amounting to RMB189,902,000 which carried interest at fixed interest rate of 4.86% per annum. The loans have been fully repaid in June 2011.

10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Directors' remunerations (note 11)	276	285	286
Other staff costs:			
— Salaries and other benefits	35,953	44,184	46,280
— Retirement benefit contributions	4,109	2,991	3,618
Total staff costs	<u>40,062</u>	<u>47,175</u>	<u>49,898</u>
Cost of inventories included in cost of sales	1,869,454	1,651,300	1,986,805
Included write down (reversal of written down) of inventories (Note)	6,740	(6,045)	—
Auditor's remuneration	1,140	1,750	1,600
Depreciation of property, plant and equipment	107,595	112,023	135,837
Amortisation of intangible assets	18,048	30,432	34,608
Release of prepaid lease payments	16,356	17,357	20,956
Less: Amount capitalised to construction in progress	<u>(9,587)</u>	<u>(12,117)</u>	<u>(17,497)</u>
	<u>6,769</u>	<u>5,240</u>	<u>3,459</u>
Research and development expenses	8,329	6,972	10,572
Minimum lease payment under operating leases	<u>891</u>	<u>908</u>	<u>937</u>

Note: During the year ended 31 December 2012, certain inventories which were fully written down in prior years were sold and resulted in a reversal of written down of inventories.

B. NOTES TO FINANCIAL INFORMATION (continued)**11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

Details of the emoluments paid or payable to the Directors were as follows:

	<u>Fees</u>	<u>Salaries and other benefits</u>	<u>Retirement benefit contributions</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2011				
Executive Directors				
Mr. Wei Qi	—	96	—	96
Mr. Wei Xuan	—	<u>180</u>	—	<u>180</u>
	—	<u>276</u>	—	<u>276</u>
For the year ended 31 December 2012				
Executive Directors				
Mr. Wei Qi	—	97	5	102
Mr. Wei Xuan	—	<u>183</u>	—	<u>183</u>
	—	<u>280</u>	<u>5</u>	<u>285</u>
Non-executive Director				
Mr. Homer Sun	—	—	—	—
For the year ended 31 December 2013				
Executive Directors				
Mr. Wei Qi	—	97	6	103
Mr. Wei Xuan	—	<u>183</u>	—	<u>183</u>
	—	<u>280</u>	<u>6</u>	<u>286</u>
Non-executive Director				
Mr. Homer Sun	—	—	—	—

Mr. Homer Sun was appointed as non-executive director of the Company on 21 March 2012.

Mr. Homer Sun did not receive any remuneration from the Group.

Five highest paid individuals

The five highest paid individuals include one director for the year ended 31 December 2013. For each of the three years ended 31 December 2011, 2012 and 2013, the emoluments of the five highest paid individuals during the Relevant Periods are as follows:

	<u>Year ended 31 December</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	RMB'000	RMB'000	RMB'000
Salaries and allowances	5,467	6,767	4,229
Retirement benefits contribution	<u>93</u>	<u>19</u>	<u>19</u>
	<u>5,560</u>	<u>6,786</u>	<u>4,248</u>

During the Relevant Periods, no emoluments were paid by the Group to any Directors or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

B. NOTES TO FINANCIAL INFORMATION (continued)**11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)***Five highest paid individuals (continued)*

The emoluments of the five highest paid individuals are within the following band:

	Year ended 31 December		
	2011	2012	2013
	Number of employees	Number of employees	Number of employees
HK\$1,000,000	1	2	2
HK\$1,000,001 to HK\$1,500,000	2	—	—
HK\$1,500,001 to HK\$2,000,000	2	2	1
HK\$2,000,001 to HK\$2,500,000	—	—	1
HK\$3,000,001 to HK\$3,500,000	—	1	—
	<u>5</u>	<u>5</u>	<u>4</u>

12. INCOME TAX EXPENSES

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC enterprise income tax ("EIT")	205,770	363,451	436,624
Deferred tax (note 19)	<u>10,339</u>	<u>241</u>	<u>37,554</u>
Income tax expenses	<u>216,109</u>	<u>363,692</u>	<u>474,178</u>

In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", New and High Technical Enterprise is subject to income tax at a tax rate of 15%. Jinzhou DPF-TH, a wholly owned subsidiary of the Company, was certified as a New and High Technical Enterprise on 29 November 2011 for 3 years in accordance with the applicable Law of the PRC on Enterprise Income Tax (the "EIT Law"), and was subject to income tax at a tax rate of 15% from 2011 to 2013. Subject to approval by the relevant local government authority, Jinzhou DPF-TH will continue to enjoy this tax treatment of a preferential tax rate of 15%.

Fuxin Hengtong, a wholly owned subsidiary of the Company, was certified as a New and High Technical Enterprise on 27 November 2012 in accordance with the applicable EIT Law and was subject to income tax at a tax rate of 15% from 2012 to 2014.

Other subsidiaries established in the PRC were subject to income tax rate of 25% for the years ended 31 December 2011, 2012 and 2013. The Company and its subsidiaries incorporated the BVI and Hong Kong had no assessable profits for each of the years ended 31 December 2011, 2012 and 2013.

According to the Law of the PRC on EIT law, qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law. The Group is currently subject to withholding tax at 10%.

B. NOTES TO FINANCIAL INFORMATION (continued)**12. INCOME TAX EXPENSES (continued)**

The tax charge for the year can be reconciled to the profit before taxation per consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Profit before taxation	1,164,220	2,553,656	3,100,407
PRC enterprise income tax at 25%	291,055	638,414	775,102
Tax effects of income not subject to tax (Note (a))	(15,801)	(34,347)	(46,782)
Tax effect of expenses not deductible for tax purpose (Note (b))	75,952	1,279	2,505
Decrease (increase) in opening deferred tax assets resulting from a change in applicable tax rate	1,629	410	(1,019)
Effect of preferential tax rates of certain subsidiaries certified as New and High Technical Enterprise	(134,024)	(241,509)	(291,098)
Additional income tax credits on certain research and development expenditure	(2,702)	(555)	(4,530)
Deferred tax associated with withholding tax on undistributed profit of PRC subsidiaries	—	—	40,000
Income tax expenses	<u>216,109</u>	<u>363,692</u>	<u>474,178</u>

Notes:

- (a) Tax effect of income not subject to tax for the year ended 31 December 2011 mainly comprised of the tax effect on a net exchange gain arising on year-end retranslation of shareholder's loans denominated in US\$ due to the appreciation of RMB against US\$ (note 7(a)). Tax effect of income not subject to tax for the two years ended 31 December 2012 and 2013 mainly due to the imputed interest income on amount due from a related party (note 6).
- (b) Tax effect of expenses not deductible for the year ended 31 December 2011 mainly due to the loss resulted from the disposal of marine fuel assets (note 7(b)). Tax effect of expenses not deductible for the years ended 31 December 2012 and 2013 mainly comprised of business entertainment expenses exceeding the standard deduction and expenses incurred by investment holding companies.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Earnings			
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	<u>948,111</u>	<u>2,189,964</u>	<u>2,626,229</u>
Number of shares for the purpose of calculating basic earnings per share	<u>23,490 million</u>	<u>23,490 million</u>	<u>23,490 million</u>

The number of ordinary shares is arrived at after considering the effect of the share split and capitalisation issue as described in Section E "Events after the reporting period" to this report.

14. DIVIDENDS

No dividends have been paid or declared by the Company during the Relevant Periods.

B. NOTES TO FINANCIAL INFORMATION (continued)

15. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u> RMB'000	<u>Plant and machinery</u> RMB'000	<u>Motor vehicles and other equipment</u> RMB'000	<u>Construction in progress</u> RMB'000	<u>Total</u> RMB'000
COST					
At 1 January 2011	165,223	1,087,308	14,439	89,355	1,356,325
Transfer	8,342	5,377	—	(13,719)	—
Additions	2,605	8,045	4,362	818,999	834,011
Disposals	(5,425)	(30,140)	(4,334)	(6,049)	(45,948)
Disposal of marine fuel assets	—	—	—	(299,744)	(299,744)
At 31 December 2011	170,745	1,070,590	14,467	588,842	1,844,644
Transfer	10,189	151,822	—	(162,011)	—
Additions	104,197	8,038	2,359	311,960	426,554
Disposals	(1,422)	(1,002)	—	—	(2,424)
At 31 December 2012	283,709	1,229,448	16,826	738,791	2,268,774
Transfer	35,098	299,248	1,824	(336,170)	—
Additions	45,436	7,850	865	2,423,895	2,478,046
Disposals	—	(3,406)	(594)	—	(4,000)
At 31 December 2013	364,243	1,533,140	18,921	2,826,516	4,742,820
DEPRECIATION AND IMPAIRMENT					
At 1 January 2011	58,458	208,958	7,576	—	274,992
Depreciation provided for the year	7,042	99,372	1,181	—	107,595
Eliminated on disposals	(4,319)	(29,556)	(3,617)	—	(37,492)
At 31 December 2011	61,181	278,774	5,140	—	345,095
Depreciation provide for the year	9,392	100,647	1,984	—	112,023
Eliminated on disposals	(1,024)	(850)	—	—	(1,874)
At 31 December 2012	69,549	378,571	7,124	—	455,244
Depreciation provide for the year	14,757	119,645	1,435	—	135,837
Eliminated on disposals	—	(3,235)	(478)	—	(3,713)
At 31 December 2013	84,306	494,981	8,081	—	587,368
CARRYING VALUES					
At 31 December 2011	109,564	791,816	9,327	588,842	1,499,549
At 31 December 2012	214,160	850,877	9,702	738,791	1,813,530
At 31 December 2013	279,937	1,038,159	10,840	2,826,516	4,155,452

The above items of property, plant and equipment, other than construction in progress, are depreciated using the straight-line method, after taking in into account of their residual values, at the following rates per annum.

Buildings	4.8%
Plant and machinery	9.6%
Motor vehicles and other equipment	9.6% to 19.2%

Buildings are erected on leasehold interest of land in the PRC under medium-term lease.

Certain property, plant and equipment with an aggregate carrying amount of approximately RMB57,284,000, RMB52,405,000 and RMB47,896,000 as at 31 December 2011, 2012 and 2013 respectively are pledged to secure bank borrowings of the Group.

B. NOTES TO FINANCIAL INFORMATION (continued)**15. PROPERTY, PLANT AND EQUIPMENT (continued)**

The Group was in the process of applying for the title certificates of certain buildings with the aggregate carrying amount of approximately RMB50,086,000, RMB48,416,000, and RMB53,678,000 as at 31 December 2011, 2012 and 2013 respectively. The Directors are of the view that the Group is legally and validly entitled to occupy and use the above-mentioned buildings.

16. PREPAID LEASE PAYMENTS

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Medium term leases	<u>762,085</u>	<u>744,886</u>	<u>973,368</u>
Analysis for reporting purpose as:			
Non-current	744,226	727,122	952,424
Current	<u>17,859</u>	<u>17,764</u>	<u>20,944</u>

Prepaid lease payment represents mainly land use rights in PRC under medium-term leases.

Certain land use rights with an aggregate carrying amount of approximately RMB5,985,000, RMB5,717,000 and RMB5,450,000 as at 31 December 2011, 2012 and 2013 respectively are pledged to secure bank borrowings of the Group.

B. NOTES TO FINANCIAL INFORMATION (continued)**17. INTANGIBLE ASSETS**

	Technical know-how	Right to use of patent	Development costs	Total
	RMB'000 (Note (a))	RMB'000 (Note (b))	RMB'000 (Note (c))	RMB'000
COST				
At 1 January 2011	55,848	124,635	111,186	291,669
Additions	—	—	79,705	79,705
Disposal of marine fuel assets	—	—	(22,840)	(22,840)
At 31 December 2011	55,848	124,635	168,051	348,534
Additions	—	—	11,092	11,092
Transfer	165,105	—	(165,105)	—
At 31 December 2012	220,953	124,635	14,038	359,626
Transfer	2,946	—	(2,946)	—
At 31 December 2013	223,899	124,635	11,092	359,626
AMORTISATION				
At 1 January 2011	11,170	18,695	—	29,865
Provided for the year	5,584	12,464	—	18,048
At 31 December 2011	16,754	31,159	—	47,913
Provided for the year	17,968	12,464	—	30,432
At 31 December 2012	34,722	43,623	—	78,345
Provided for the year	22,144	12,464	—	34,608
At 31 December 2013	56,866	56,087	—	112,953
CARRYING VALUES				
At 31 December 2011	39,094	93,476	168,051	300,621
At 31 December 2012	186,231	81,012	14,038	281,281
At 31 December 2013	167,033	68,548	11,092	246,673

Notes:

- (a) The technical know-how mainly relates to certain manufacturing process for the production of specialty fluorochemicals, of which an amount of approximately RMB55,848,000 was purchased from Liaoning Tianhe in 2007 and the remaining amounts represented costs paid by the Group to external parties for developing the technology. The amounts are amortised over the estimated economic useful lives of 10 years from the commencement of commercial production of the related products.
- (b) In January 2008, the Company's subsidiary, Jinzhou DPF-TH, entered into an agreement with Liaoning Tianhe for the development of a technology for production. The development was completed in 2008. Liaoning Tianhe obtained the right to use the technology for 20 years from June 2008 and subsequently registered the patent for 8 years from May 2011. Jinzhou DPF-TH obtained the exclusive right to use the technology from Liaoning Tianhe from 2009.
- (c) Development costs are stated at cost less any impairment losses. Development costs are reclassified to technical know-how when the relevant development project is completed.

18. DEPOSITS PAID FOR ACQUISITION OF NON-CURRENT ASSETS

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Deposits paid for property, plant and equipment	6,765	1,531,224	1,616,477
Deposits paid for prepaid lease payments	286,359	577,509	456,829
	<u>293,124</u>	<u>2,108,733</u>	<u>2,073,306</u>

B. NOTES TO FINANCIAL INFORMATION (continued)

19. DEFERRED TAXATION

The following are the Group's major deferred tax assets (liabilities) recognised and movements thereon during the Relevant Periods:

	Impairment losses on receivables	Write down on inventories	Impairment losses on property, plant and equipment	Deferred income	Tax losses	Withholding tax	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note)	RMB'000	RMB'000
At 1 January								
2011	202	169	2,338	3,700	9,805	—	(162)	16,052
Recognised in profit or loss	—	1,081	(1,486)	(422)	(7,883)	—	—	(8,710)
Effect of change in tax rate charged (credit) to profit or loss	(81)	(68)	—	(1,480)	—	—	—	(1,629)
At 31 December								
2011	121	1,182	852	1,798	1,922	—	(162)	5,713
Recognised in profit or loss	(47)	(907)	—	(422)	1,545	—	—	169
Effect of change in tax rate (credit) to profit or loss	—	(69)	(341)	—	—	—	—	(410)
At 31 December								
2012	74	206	511	1,376	3,467	—	(162)	5,472
Recognised in profit or loss	(35)	—	—	(703)	2,165	(40,000)	—	(38,573)
Effect of change in tax rate charge (credit) to profit or loss	34	68	—	917	—	—	—	1,019
At 31 December								
2013	73	274	511	1,590	5,632	(40,000)	(162)	(32,082)

The following is the analysis of the deferred tax balances for financial reporting purpose:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Deferred tax assets	5,875	5,634	8,080
Deferred tax liabilities	(162)	(162)	(40,162)
	5,713	5,472	(32,082)

Note: During the year ended 31 December 2013, deferred tax liability amounted to RMB40,000,000 has been recognised in respect of undistributed earnings of PRC subsidiaries as the Group intended to distribute an aggregate of RMB400,000,000 out of the retained profits of PRC subsidiaries to the investment holding companies which will be subject to 10% withholding tax.

Other than disclosed above, no deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of PRC subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of such taxable temporary differences not recognised amounted to approximately RMB2,257,129,000, RMB4,329,594,000 and RMB6,451,594,000 as at 31 December 2011, 2012 and 2013 respectively.

The Group did not have any deductible temporary difference and tax loss not recognised as at 31 December 2011, 2012 and 2013.

B. NOTES TO FINANCIAL INFORMATION (continued)**20. INVENTORIES**

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Raw materials	61,882	85,050	73,632
Consumables	8,394	6,921	4,246
Work in progress	4,434	11,405	20,978
Finished goods	82,899	218,263	206,727
	<u>157,609</u>	<u>321,639</u>	<u>305,583</u>

21. TRADE AND BILLS RECEIVABLES

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade receivables	66,669	51,297	124,228
Bills receivable	6,080	3,987	14,283
	72,749	55,284	138,511
Less: allowance for doubtful receivables	(784)	(292)	(258)
	<u>71,965</u>	<u>54,992</u>	<u>138,253</u>

Trade and bills receivables are mainly from sales of goods. The Group generally deliver goods upon payments. For some large customers, the Group would grant credit terms of 30 days to 90 days. The following is an aged analysis of the Group's trade and bills receivable, net of allowance for doubtful receivables by invoice date as at the end of the reporting period:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 30 days	30,256	16,357	53,027
31 to 60 days	11,880	18,000	28,167
61 to 90 days	12,105	6,251	21,013
91 to 180 days	9,331	14,352	26,424
181 to 365 days	8,393	32	9,622
	<u>71,965</u>	<u>54,992</u>	<u>138,253</u>

The following is the aged analysis of the amounts included in the trade receivables which were past due at the end of each reporting period but not impaired:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Overdue by:			
Up to 90 days	15,648	18,682	24,863
91 to 180 days	7,795	—	10,803
181 to 365 days	1,591	32	3,025
	<u>25,034</u>	<u>18,714</u>	<u>38,691</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**21. TRADE AND BILLS RECEIVABLES (continued)**

Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. All the receivables that are neither past due nor impaired are due from customers with good settlement history.

To manage credit risk, the Group may from time to time demand customers to settle the trade receivables before the next delivery and requests advance from these customers.

Movements in the allowance of doubtful receivables are set out as follows:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
At the beginning of the year	784	784	292
Reversed during the year	—	(492)	(34)
At the end of the year	<u>784</u>	<u>292</u>	<u>258</u>

Included in allowance for doubtful receivables are trade receivables individually impaired which are due from debtors under financial difficulties. In addition, the Group assessed impairment on a collective basis. No further allowance for doubtful receivables has been recognised.

The Group's trade receivables denominated in a currency other the functional currency of the relevant group entity are set out below:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
US\$	<u>5,001</u>	<u>4,839</u>	<u>37,981</u>

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
THE GROUP			
Other receivables and deposits, net of allowance for doubtful receivables	3,729	5,230	5,434
Deposits (Note)	71,140	20,830	3,540
Advances to suppliers	<u>54,286</u>	<u>36,916</u>	<u>37,470</u>
	<u>129,155</u>	<u>62,976</u>	<u>46,444</u>

Note: The amount represents the bidding deposits for land use rights paid by the Group. The deposits are refundable upon completion of the relevant auction process, no matter whether the Group win the bid or not.

B. NOTES TO FINANCIAL INFORMATION (continued)**22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)**

Movements in the allowance for doubtful receivables on other receivables are set out as follows:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
At the beginning of the year	24	24	200
Provided during the year	—	176	—
Amount written off	—	—	(200)
At the end of the year	<u>24</u>	<u>200</u>	<u>—</u>

Include in allowance for doubtful receivables are other receivables individually impaired which are due from debtors under financial difficulties.

The Group's other receivables denominated in a currency other the functional currency of the relevant group entity are set out below:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
HK\$	<u>811</u>	<u>811</u>	<u>1,436</u>

23. BANK DEPOSITS

As at 31 December 2011, 2012 and 2013, the Group's bank deposits with original maturity of more than three months carried fixed interest rate of 3.30%, 3.05% and 3.05% per annum respectively.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and cash held by the Group, and short-term bank deposits that borne interest at prevailing market interest rates.

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Bank deposits denominated in:			
— RMB	423,298	246,429	953,788
— US\$	2,021	7,899	28,029
— HK\$	160	76	2,161
— Others	12	1	554
Cash on hand	<u>226</u>	<u>229</u>	<u>300</u>
	<u>425,717</u>	<u>254,634</u>	<u>984,832</u>

The bank balances carry interest rates as follows:

	2011	2012	2013
Range of interest rate per annum	<u>0.01%~0.5%</u>	<u>0.01%~0.5%</u>	<u>0.01%~0.35%</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**25. TRADE AND OTHER PAYABLES**

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade payables	20,412	23,850	22,100
Others payables	18,454	9,807	32,967
Payable for prepaid lease payment	54,054	54,054	54,054
Staff welfares payables	22,313	22,195	21,400
Other tax payables	29,313	24,594	19,536
Accrued interests	1,634	1,394	864
Advance received from customers	3,338	7,471	15,591
	<u>149,518</u>	<u>143,365</u>	<u>166,512</u>

Other payables are unsecured, interest-free and repayable on demand.

Payable for prepaid lease payment is due upon issuance of land use right certificate by relevant government authorities.

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 90 days	17,939	21,532	16,578
91 to 365 days	1,543	958	4,150
1 to 2 years	425	471	431
2 to 3 years	299	408	124
Over 3 years	206	481	817
	<u>20,412</u>	<u>23,850</u>	<u>22,100</u>

The average credit period on purchases of goods is 90 days.

The Group's other payables denominated in a currency other than the functional currency of the relevant group entities are set out below:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
US\$	<u>744</u>	<u>12</u>	<u>3</u>

26. BANK BORROWINGS

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Unsecured bank borrowings (Note (a))	308,000	958,000	1,254,000
Secured bank borrowings (Note (b))	125,703	97,654	70,139
Total bank borrowings	<u>433,703</u>	<u>1,055,654</u>	<u>1,324,139</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**26. BANK BORROWINGS (continued)**

Notes:

- (a) The bank borrowings with the balances amounting to RMB78,000,000, RMB678,000,000 and RMB454,000,000 as at 31 December 2011, 2012 and 2013 respectively were guaranteed by Liaoning Tianhe.
- (b) Details of the assets pledged to secure bank borrowings are set out in notes 15, 16 and 32(a).

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Bank borrowings repayable:			
Within one year	335,934	985,866	1,281,030
More than one year but not exceeding two years	27,934	27,866	27,030
More than two years but not exceeding five years	69,835	41,922	16,079
	<u>433,703</u>	<u>1,055,654</u>	<u>1,324,139</u>
Less: Amount due within one year shown under current liabilities	(335,934)	(985,866)	(1,281,030)
Amount due after one year	<u>97,769</u>	<u>69,788</u>	<u>43,109</u>

The following is an analysis of the Group's bank borrowings by variable and fixed interest rate:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Variable interest rate	433,703	655,654	1,324,139
Fixed interest rate	—	400,000	—
	<u>433,703</u>	<u>1,055,654</u>	<u>1,324,139</u>

Range of interest rates per annum:

	2011	2012	2013
	%	%	%
Variable interest rate	3.27-7.22	3.25-7.87	3.26-6.60
Fixed interest rate	—	7.35-7.87	—

The Group's bank borrowings denominated in a currency other than the functional currency of the relevant group entity are set out below:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
US\$	<u>125,703</u>	<u>97,654</u>	<u>70,138</u>

27. DEFERRED INCOME

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
At the beginning of the year	14,799	11,986	9,173
Released to profit or loss for the year (note 6)	(2,813)	(2,813)	(2,813)
At the end of the year	<u>11,986</u>	<u>9,173</u>	<u>6,360</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**27. DEFERRED INCOME (continued)**

Deferred income represents government grants to the Company's subsidiaries as financial incentives for the construction of production facilities lines for certain lubricant additives and fluorocarbon alcohol projects and building for research and development purposes. The balance will be credited to profit or loss on a straight-line basis over the useful lives of the relevant facilities and building.

28. SHARE CAPITAL

		<u>At 31 December</u>		
		<u>2011</u>	<u>2012</u>	<u>2013</u>
Ordinary shares of US\$ 0.01 each authorised:				
46,500 shares	US\$	<u>465</u>	<u>465</u>	<u>465</u>
Issued and fully paid:				
46,500 shares	US\$	<u>465</u>	<u>465</u>	<u>465</u>
Shown in the Financial Information as	RMB'000	<u>3</u>	<u>3</u>	<u>3</u>

Changes in authorised and issued share capital subsequent to 31 December 2013 are disclosed in section E below.

29. RESERVES

		<u>Share premium</u>	<u>Accumulated (losses) profits</u>	<u>Total</u>
		<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<u>THE COMPANY</u>				
At 1 January 2011		396,177	(149,436)	246,741
Profit for the year		—	64,423	64,423
At 31 December 2011		396,177	(85,013)	311,164
Profit for the year		—	81,669	81,669
At 31 December 2012		396,177	(3,344)	392,833
Profit for the year		—	79,443	79,443
At 31 December 2013		<u>396,177</u>	<u>76,099</u>	<u>472,276</u>

30. INVESTMENTS IN SUBSIDIARIES

		<u>At 31 December</u>		
		<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>THE COMPANY</u>				
Unlisted shares, at cost	US\$	<u>3</u>	<u>3</u>	<u>3</u>
		RMB'000	RMB'000	RMB'000
Shown in the Financial Information as:				
Unlisted shares, at cost		—	—	—
Deemed contribution to the Company's subsidiaries		<u>372,913</u>	<u>372,913</u>	<u>372,913</u>
		<u>372,913</u>	<u>372,913</u>	<u>372,913</u>

Deemed contribution to subsidiaries represents the fair value adjustments of the interest free advances to the Company's subsidiaries upon initial recognition. Details are set out in note 35(d).

B. NOTES TO FINANCIAL INFORMATION (continued)**31. RETIREMENT BENEFIT PLANS**

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The Group entities in the PRC contribute funds which are calculated on a certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. The total cost charged to profit or loss for the years ended 31 December 2011, 2012 and 2013 amounted to RMB4,109,000, RMB2,991,000 and RMB3,618,000 respectively, represent contributions paid or payable to the scheme by the Group.

32. PLEDGE OF ASSETS

- (a) The following assets were pledged to secure certain bank borrowings granted to the Group at the end of each reporting period:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	57,284	52,405	47,896
Prepaid lease payments	5,985	5,717	5,450
	<u>63,269</u>	<u>58,122</u>	<u>53,346</u>

- (b) Shares pledged

As at 31 December 2011, 2012 and 2013, the Group provided the following pledges:

The Group pledged 49.9% equity interest of Advanced Grade, 49.9% equity interest of TurboRICH, 49.9% equity interest of Vivid Rise, 49.9% equity interest of China Venture and 49.9% equity interest of China Vision respectively to Investec Bank Plc in connection with the loan facility amounting to US\$67,000,000 granted by Investec Bank Plc to Driven Goal Ltd., the immediate holding company of the Company.

The Group pledged 5.3% equity interest of Advanced Grade, 5.3% equity interest of TurboRICH, 5.3% equity interest of Vivid Rise, 5.3% equity interest of China Venture and 5.3% equity interest of China Vision respectively to Pa Macro Opportunity III Limited in connection with the exchangeable bonds amounting to US\$35,294,000 issued by Gain Elite Holdings Limited, the intermediate holding company of the Company.

As at 31 December 2012 and 2013, the Group also provided the following pledges:

The Group pledged 51% equity interest of Advanced Grade, 51% equity interest of TurboRICH, 51% equity interest of Vivid Rise, 51% equity interest of China Venture and 51% equity interest of China Vision respectively to MSPEA Specialty Chemicals Holdings Ltd in connection with the convertible preferred shares amounting to US\$300,000,000 issued by Driven Goal Ltd., the immediate holding company of the Company.

B. NOTES TO FINANCIAL INFORMATION (continued)**32. PLEDGE OF ASSETS (continued)**

(b) Shares pledged (continued)

The Group pledged 5.1% equity interest of Advanced Grade, 5.1% equity interest of TurboRICH, 5.1% equity interest of Vivid Rise, 5.1% equity interest of China Venture and 5.1% equity interest of China Vision respectively to Victor Keen Limited in connection with the convertible preferred shares amounting to US\$30,000,000 issued by Driven Goal Ltd., the immediate holding company of the Company.

33. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of each reporting period is as follows:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Acquisition or construction of property, plant and equipment contracted but not provided for:	3,050,982	1,564,344	1,469,017

(b) Operating lease commitments — the Group as lessee

The Group leases various office buildings and vehicles under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
No later than 1 year	741	970	330
Later than 1 year and no later than 5 years	640	330	—
Total	1,381	1,300	330

34. CONTINGENT LIABILITIES

The amounts of the outstanding financial guarantees provided by the Group at the end of each reporting period are as follows:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Financial guarantees given to banks	—	—	300,000

As at 31 December 2013, the Group issued financial guarantees to banks in respect of banking facilities granted to Liaoning Tianhe. The amount disclosed above represents the aggregate amount that could be required to be paid if the guarantees were called upon in entirety, which has been fully utilised by Liaoning Tianhe as at 31 December 2013. The financial guarantees have been released in March 2014.

B. NOTES TO FINANCIAL INFORMATION (continued)**34. CONTINGENT LIABILITIES (continued)**

In the opinion of the Directors, the fair value of the financial guarantees issued by the Group is insignificant at initial recognition and the possibility of default by Liaoning Tianhe is not probable. Accordingly, no provision has been recognised at the inception of the guarantee and as at 31 December 2013.

35. RELATED-PARTY TRANSACTIONS

The following parties are identified as related parties to the Group and the respective relationships are set out below:

<u>Name of related parties</u>	<u>Relationship with the Group</u>
Gain Elite	Intermediate holding company
Driven Goal Ltd.	Immediate holding company
Liaoning Tianhe	A company controlled by Wei's family
錦州天合進出口貿易有限公司 (Jinzhou Tianhe Import & Export Trading Co., Ltd.) ("Jinzhou Tianhe")	A company controlled by Wei's family
義縣第一運輸有限責任公司 (Yixian the First Public Transportation Co., Ltd.) ("Yixian Transportation")	A company controlled by Wei's family
寧夏天合精細化工股份有限公司 (Ningxia Tianhe Fine Chemical Co., Ltd.)* ("Ningxia Tianhe")	A subsidiary of Liaoning Tianhe
Jinzhou Heisenberg	A company controlled by Wei's family
錦州企峰石化科技有限公司 (Jinzhou Peak Petrochemical Technology Co., Ltd.) ("Jinzhou Peak")	A company controlled by Wei's family
中奇礦業有限公司 (Zhongqi Kuangye Co., Ltd.) ("Zhongqi Kuangye")	A company controlled by Wei's family
錦州恒通氟化學有限公司 (Jinzhou Hengtong Fluorine Chemical Co., Ltd.) ("Jinzhou Hengtong")	A company controlled by Wei's family

* Ningxia Tianhe was a subsidiary of Liaoning Tianhe. Liaoning Tianhe transferred its entire equity interests of 51% in Ningxia Tianhe to a third party on 20 June 2011.

B. NOTES TO FINANCIAL INFORMATION (continued)**35. RELATED-PARTY TRANSACTIONS (continued)**

In addition to the related party transaction disclosed in notes 7, 9, 17, 26, 32 and 34, the Group entered into the following significant transactions with its related parties:

(a) Sales of goods

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>			
Sales of goods:			
— Liaoning Tianhe	16,679	18,819	24,165
— Jinzhou Tianhe	95,325	338	67
— Yixian Transportation	367	496	406
— Jinzhou Peak	—	51	—
— Jinzhou Heisenberg	—	—	385
— Ningxia Tianhe	72	—	—
Total	<u>112,443</u>	<u>19,704</u>	<u>25,023</u>

(b) Purchases of goods

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>			
Purchases of goods:			
— Ningxia Tianhe	27,887	—	—
— Liaoning Tianhe	5	764	—
— Jinzhou Tianhe	53,059	—	—
Total	<u>80,951</u>	<u>764</u>	<u>—</u>

(c) Land lease

THE GROUP

Liaoning Tianhe, as landlord, entered into a land lease agreement with Jinzhou DPF-TH, as tenant, on 1 November 2008 for a piece of land for 12 years commencing from 1 November 2008 at an aggregate lease payment of RMB6,000,000. The amount was fully paid in 2008 and included in "Prepaid lease payments".

Note: In the opinion of the Directors, the above transactions with related parties will not be continued after the listing of the Company's shares on the Stock Exchange (the "Listing").

B. NOTES TO FINANCIAL INFORMATION (continued)**35. RELATED-PARTY TRANSACTIONS (continued)**

(d) Balances with related parties (continued)

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>			
Amounts due to related parties (non-trade):			
— Mr. Wei Xuan	18,903	—	37
— Liaoning Tianhe	—	—	172,436
	<u>18,903</u>	<u>—</u>	<u>172,473</u>
Dividends payable			
— Liaoning Tianhe	<u>2,237</u>	<u>2,237</u>	<u>2,237</u>

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

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>THE COMPANY</u>			
Amount due from subsidiaries (non-trade):			
— TurboRICH	313,578	332,411	343,199
— Vivid Rise	261,315	277,009	285,999
— Advanced Grade	<u>664,760</u>	<u>672,455</u>	<u>694,253</u>
Total	<u>1,239,653</u>	<u>1,281,875</u>	<u>1,323,451</u>
Analysis for reporting purpose as:			
Non-current	1,239,653	1,281,875	—
Current	<u>—</u>	<u>—</u>	<u>1,323,451</u>

The amounts due from subsidiaries are denominated in US\$, unsecured, non-interest bearing and repayable on demand, and represented advances made by the Company to its subsidiaries. In the opinion of the Directors, the amounts due from subsidiaries at 31 December 2011 and 2012 were not expected to be recovered within twelve months and are therefore classified as non-current assets. They are measured at fair value at initial recognition using the discounted cash flows method by applying an effective interest rate of 6.65% per annum. The fair value adjustments amounted to approximately RMB372,913,000 at initial recognition was recognised as deemed contribution to the Company's subsidiaries in prior year.

As at 31 December 2011, 2012 and 2013, the principal amount of amount due from subsidiaries amounted to RMB1,494,543,000, RMB1,454,328,000 and RMB1,410,659,000, respectively.

B. NOTES TO FINANCIAL INFORMATION (continued)**35. RELATED-PARTY TRANSACTIONS (continued)**

(e) Shareholder's loans

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>			
Driven Goal Ltd.	<u>1,301,362</u>	<u>1,270,506</u>	<u>1,234,862</u>
<u>THE COMPANY</u>			
Driven Goal Ltd.	<u>1,301,362</u>	<u>1,261,952</u>	<u>1,224,735</u>

The loans from immediate holding company are denominated in US\$. They are unsecured, non-interest bearing and repayable on demand.

(f) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and other key management of the Group. The key management personnel compensation are as follows:

	At 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	3,442	4,071	6,035
Retirement benefit contributions	2	10	12
	<u>3,444</u>	<u>4,081</u>	<u>6,047</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**36. FINANCIAL INSTRUMENTS***Categories of financial instruments*

	At 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
THE GROUP			
Financial assets, at amortised cost			
Trade, bills and other receivables excluding prepayments	146,834	81,052	147,227
Amounts due from related parties	893,773	1,065,673	813,744
Bank deposits	15,000	556,000	456,000
Cash and cash equivalents	425,717	254,634	984,832
	<u>1,481,324</u>	<u>1,957,359</u>	<u>2,401,803</u>
Financial liabilities, at amortised cost			
Bank borrowings	433,703	1,055,654	1,324,139
Trade and other payables excluding statutory liabilities	116,867	111,300	131,385
Dividends payable	2,237	2,237	2,237
Amount due to related parties	18,903	—	172,473
Shareholder's loans	1,301,362	1,270,506	1,234,862
	<u>1,873,072</u>	<u>2,439,697</u>	<u>2,865,096</u>
THE COMPANY			
Financial assets, at amortised cost			
Amounts due from subsidiaries	1,239,653	1,281,875	1,323,451
Other receivables	—	—	650
Cash and cash equivalents	2	—	—
	<u>1,239,655</u>	<u>1,281,875</u>	<u>1,324,101</u>
Financial liabilities, at amortised cost			
Other payables	39	—	—
Shareholder's loans	1,301,362	1,261,952	1,224,735
	<u>1,301,401</u>	<u>1,261,952</u>	<u>1,224,735</u>

The Group's and the Company's major financial instruments include bank borrowings, trade, bills and other receivables, trade and other payables, dividends payable, amounts due from related parties and subsidiaries, amounts due to related parties, shareholder's loans, bank deposits and cash and cash equivalents. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's and the Company's activities expose primarily to the market risks of changes in interest rates and foreign currency exchange rates.

There has been no significant change to the Group's and the Company's exposure to market risks or the manner in which it manages and measures the risk during the Relevant Periods.

B. NOTES TO FINANCIAL INFORMATION (continued)**36. FINANCIAL INSTRUMENTS (continued)***Market risk (continued)**Foreign currency risk*

The Group has certain assets and liabilities, including trade receivables (note 21), other receivables (note 22), cash and cash equivalents (note 24), other payables (note 25), bank borrowings (note 26) and shareholder's loans (note 35(e)) denominated in foreign currencies, hence exposure to exchange rate fluctuation arises. The Company's amounts due from subsidiaries (note 35(d)) and shareholder's loans (note 35(e)) are denominated in US\$, a foreign currency.

The Group and the Company have not entered into any foreign currency forward contract to hedge against these foreign currencies risk exposure. However, the management of the Group and the Company will consider to hedge these balances should the need arise.

Foreign currency sensitivity

The Group and the Company are mainly exposed to exchange rate fluctuation on US\$ and HK\$ against functional currency of RMB. The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets			Liabilities		
	2011	2012	2013	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>						
US\$	7,022	12,738	66,010	(1,427,809)	(1,368,172)	(1,305,003)
HK\$	971	887	3,597	—	—	—
	=====	=====	=====	=====	=====	=====
	Assets			Liabilities		
	2011	2012	2013	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>THE COMPANY</u>						
US\$	1,239,653	1,281,875	1,323,451	(1,301,362)	(1,261,952)	(1,224,735)
HK\$	—	—	650	—	—	—
	=====	=====	=====	=====	=====	=====

B. NOTES TO FINANCIAL INFORMATION (continued)**36. FINANCIAL INSTRUMENTS (continued)***Market risk (continued)**Foreign currency sensitivity (continued)*

The following table details the Group's and the Company's sensitivity to a 1% strengthening of RMB against US\$ and HK\$. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the exchange rate of RMB against US\$ and HK\$. A positive (negative) amount below represent increase (decrease) in profit for the relevant year:

	US\$			HK\$		
	2011	2012	2013	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>						
If RMB weakens 1% against foreign currencies	(12,077)	(11,521)	(10,531)	8	8	31
If RMB strengthens 1% against foreign currencies	<u>12,077</u>	<u>11,521</u>	<u>10,531</u>	<u>(8)</u>	<u>(8)</u>	<u>(31)</u>
	US\$			HK\$		
	2011	2012	2013	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>THE COMPANY</u>						
If RMB weakens 1% against foreign currencies	(525)	169	839	—	—	6
If RMB strengthens 1% against foreign currencies	<u>525</u>	<u>(169)</u>	<u>(839)</u>	<u>—</u>	<u>—</u>	<u>(6)</u>

In management's opinion, the sensitivity analysis is unrepresentative of inherent foreign exchange risk as the year end exposure does not reflect the exposure during the respective year.

Interest rate risk

Other than bank deposits and cash and cash equivalents, the Group has no significant interest-bearing financial assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk mainly arises from bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. The Group has bank borrowings of nil, RMB400,000,000 and nil as at 31 December 2011, 2012 and 2013 respectively at fixed interest rates and RMB433,703,000, RMB655,654,000 and RMB1,324,139,000 as at 31 December 2011, 2012 and 2013 respectively at variable interest rates. The Group has not used any derivative contracts to hedge potential fluctuations in interest rates.

The Company has no material exposure to interest rate risk.

Interest rate sensitivity

The sensitivity analysis below has been prepared based on the exposure to interest rates on bank balances and variable rate bank borrowings at the end of each reporting period and assuming the

B. NOTES TO FINANCIAL INFORMATION (continued)**36. FINANCIAL INSTRUMENTS (continued)***Market risk (continued)**Interest rate sensitivity (continued)*

amounts outstanding at the end of the period were outstanding for the year. A 50 basis points increase or decrease for variable rate bank borrowings and a 25 basis points increase or decrease for bank balances are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rate in respect of bank borrowings and bank balances, respectively.

If interest rates had been increased/decreased by 50 basis points in respect of variable rate bank borrowings and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2011, 2012 and 2013 would decrease/increase by approximately RMB1,843,000, RMB2,787,000 and RMB5,628,000 respectively.

If interest rates had been increased/decreased by 25 basis points in respect of bank balances and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2011, 2012 and 2013 respectively would increase/decrease by approximately RMB904,000, RMB541,000 and RMB2,092,000 respectively.

Credit risk management

At the end of each of the reporting period, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position and the financial guarantee disclosed in note 34. In order to minimise the credit risk, monitoring procedures are carried out to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade and other receivables and amounts due from related parties at the end of each of the reporting period. The amounts presented in the consolidated statements of financial position are net of allowances on doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on amounts due from related parties is limited as related parties are with strong financial position.

As at 31 December 2011, 2012 and 2013, the Group has concentration of credit risk as 71%, 69% and 100% of the total amounts due from related parties, respectively, was due from Jinzhou Heisenberg which has been fully settled in March 2014.

Since a substantial portion of our revenue is derived from our top five customers, 65.8%, 76.2% and 38.2% of the trade receivables as at 31 December 2011, 2012 and 2013 are due from the top five customers located in the PRC. Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings and the concentration of trade receivables described above, the Group does not have any other significant concentration of credit risk.

B. NOTES TO FINANCIAL INFORMATION (continued)**36. FINANCIAL INSTRUMENTS (continued)***Credit risk management (continued)*

The Company reviews regularly the recoverable amount of the amounts due from its subsidiaries. Although the amounts are concentrated on these subsidiaries, the credit risk is considered as limited as these subsidiaries are with strong financial position. The Company does not have any other significant concentration on credit risk.

Liquidity risk

To manage the liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The Group and the Company expects to fund its future cash flow needs through internally generated cash flows from operations, bank borrowings, as well as financing through shareholders or initial public offering.

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative 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 Group and the Company can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at the end of the reporting period. The amounts included below for non-derivative variable rate financial liabilities is subject to change if change in interest rates differ to those estimates of interest rates determined at the end of the reporting period.

	Weighted average interest rate %	On demand or less than 3 months RMB'000	Between 3 and 6 months RMB'000	Between 6 months and 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
THE GROUP								
<u>At 31 December 2011</u>								
Bank borrowings	4.15	68,673	—	281,217	29,095	72,736	451,721	433,703
Trade and other payables	—	116,867	—	—	—	—	116,867	116,867
Amount due to a related party	—	18,903	—	—	—	—	18,903	18,903
Shareholder's loans	—	1,301,362	—	—	—	—	1,301,362	1,301,362
Dividends payable	—	2,237	—	—	—	—	2,237	2,237
		<u>1,508,042</u>	<u>—</u>	<u>281,217</u>	<u>29,095</u>	<u>72,736</u>	<u>1,891,090</u>	<u>1,873,072</u>
<u>At 31 December 2012</u>								
Bank borrowings	6.60	538,306	213,205	299,446	29,706	44,690	1,125,353	1,055,654
Trade and other payables	—	111,300	—	—	—	—	111,300	111,300
Shareholder's loans	—	1,270,506	—	—	—	—	1,270,506	1,270,506
Dividends payable	—	2,237	—	—	—	—	2,237	2,237
		<u>1,922,349</u>	<u>213,205</u>	<u>299,446</u>	<u>29,706</u>	<u>44,690</u>	<u>2,509,396</u>	<u>2,439,697</u>
<u>At 31 December 2013</u>								
Bank borrowings	6.40	386,783	819,286	156,957	28,760	17,108	1,408,894	1,324,139
Trade and other payables	—	131,385	—	—	—	—	131,385	131,385
Amounts due to related parties	—	172,473	—	—	—	—	172,473	172,473
Shareholder's loans	—	1,234,862	—	—	—	—	1,234,862	1,234,862
Dividends payable	—	2,237	—	—	—	—	2,237	2,237
		<u>1,927,740</u>	<u>819,286</u>	<u>156,957</u>	<u>28,760</u>	<u>17,108</u>	<u>2,949,851</u>	<u>2,865,096</u>
Financial guarantee contracts	—	300,000	—	—	—	—	300,000	—
		<u>2,227,740</u>	<u>819,286</u>	<u>156,957</u>	<u>28,760</u>	<u>17,108</u>	<u>3,249,851</u>	<u>2,865,096</u>

B. NOTES TO FINANCIAL INFORMATION (continued)**36. FINANCIAL INSTRUMENTS (continued)***Liquidity risk (continued)*

	Weighted average interest rate	On demand or less than 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Total	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>THE COMPANY</u>								
At 31 December 2011								
Other payables	—	39	—	—	—	—	39	39
Shareholder's loans	—	1,301,362	—	—	—	—	1,301,362	1,301,362
		<u>1,301,401</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,301,401</u>	<u>1,301,401</u>
At 31 December 2012								
Shareholder's loans	—	<u>1,261,952</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,261,952</u>	<u>1,261,952</u>
At 31 December 2013								
Shareholder's loans		<u>1,224,735</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,224,735</u>	<u>1,224,735</u>

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

C. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 26 and shareholder's loans, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising share capital, share premium, statutory reserve, safety reserve, other reserves and retained earnings. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Directors review the capital structure periodically. As a part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the repayment of existing debt, if necessary.

D. DIRECTORS' REMUNERATION

Save as disclosed in the Financial Information, no remuneration has been paid or is payable to the Directors by the Company or any of its subsidiaries during the Relevant Periods.

E. EVENTS AFTER THE REPORTING PERIOD

- (a) On 5 March 2014, the Company made a resolution to make a special dividend to the shareholders of the Company in an amount of RMB810,000,000. The dividends have been fully settled in April 2014.
- (b) Pursuant to a resolution in writing passed by the sole shareholder of the Company on 22 May 2014, the Company subdivided each of the 46,500 issued and 4,953,500 unissued shares with a par value of US\$0.01 each into 10,000 shares with a par value of US\$0.000001 each, so that thereafter, (a) the maximum number of shares which the Company is authorised to issue shall be 50,000,000,000 shares with a par value of US\$0.000001 each; and (b) the number of issued shares shall be 465,000,000 shares of US\$0.000001 each, while the number of the unissued shares shall be 49,535,000,000 shares of US\$0.000001 each.
- (c) On 22 May 2014, the Directors capitalised US\$23,025 from the reserve account of the Company and applied the same amount in paying up in full 23,025,000,000 shares at par, which were allotted and issued to the sole shareholder of the Company, Driven Goal. Subsequent to the capitalisation issue, the Company had 23,490,000,000 issued shares, which are solely held by Driven Goal.

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent 31 December 2013.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set out in this Appendix does not form part of the accountants' report on the financial information of the Group for the three years ended December 31, 2013 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, our Company's Reporting Accountants, as set out in Appendix I to this prospectus (the "Accountants' Report"), and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets of the Group which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if the Global Offering had taken place on December 31, 2013. The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2013 or at any future dates following the Global Offering. It is prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as of December 31, 2013 as shown in the Accountants' Report of the Group set out in Appendix I of this prospectus and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as of December 31, 2013 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽³⁾	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB)	(HK\$)
Based on an Offer Price of HK\$1.75 per Share	7,206.9	2,685.6	9,892.5	0.39	0.49
Based on an Offer Price of HK\$2.25 per Share	7,206.9	3,473.7	10,680.6	0.42	0.53

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as of December 31, 2013 is based on the consolidated net assets of the Group of RMB7,453.6 million adjusted for intangible assets of RMB246.7 million as extracted from the Accountants' Report set out in Appendix I of this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on 2,043,000,000 Shares at the Offer Price of HK\$1.75 and HK\$2.25 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by us. No account has been taken of the Shares which may be issued pursuant to any exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.79549 to HK\$1.00, which was the PBOC rate prevailing on May 23, 2014. No representation is made that Hong Kong dollars amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 25,533,000,000 Shares, being the number of Shares expected to be in issue immediately following the completion of the Global Offering without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option. The unaudited pro forma adjusted consolidated net tangible assets per Share in RMB is converted to Hong Kong dollars at the PBOC rate of RMB0.79549 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.
- (4) No adjustment has been made to the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2013 to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2013. In particular, the unaudited pro forma adjusted consolidated net tangible assets in the table above have not been adjusted to show the effect of the dividend declared by the Company subsequent to December 31, 2013. Subsequent to December 31, 2013, the Company declared a dividend of totaling RMB810 million to its then shareholders and no pro forma adjustment has been made to the consolidated net tangible assets of the Group.

(B) ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this prospectus.

Deloitte.
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**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF TIANHE CHEMICALS GROUP LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Tianhe Chemicals Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the statement of the unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2013 and related notes as set out on page II-1 of Appendix II to the prospectus issued by the Company dated 9 June 2014 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on page II-1 of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering (as defined in the Prospectus) on the Group's financial position as at 31 December 2013 as if the Global Offering had taken place at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three years ended 31 December 2013, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting

accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled 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 pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 9 June 2014

Unless otherwise defined, terms used in this appendix shall have the same meanings as those defined in the section headed “Definitions” and “Our History and Corporate Structure — Pre-IPO Investors of our Group” of this prospectus.

A. Exchangeable Loans

Set forth below is a summary of the principal terms and conditions of the First Investec Loan and the Second Investec Loan (as amended from time to time) between Driven Goal, Investec, the Wei Family and the documents associated with the Investec Loans (together, the “**Exchangeable Loan Documents**”):

Name of Investor:	Investec
Instrument:	Exchangeable loans
Date of Investment:	In respect of the First Investec Loan: January 15, 2010 In respect of the Second Investec Loan: December 24, 2010
Principal Amount:	US\$37,000,000 in respect of the First Investec Loan US\$30,000,000 in respect of the Second Investec Loan
Drawdown Dates:	In respect of the First Investec Loan: (a) First drawdown date: January 19, 2010 (b) Second drawdown date: February 9, 2010 (c) Third drawdown date: February 18, 2010 In respect of the Second Investec Loan: December 30, 2010
Maturity Date:	December 31, 2016
Interest Rate:	Interest is payable on the Investec Loans in an amount that would yield a total internal rate of return of 25% to Investec at the maturity date.
Payment of Interest:	No interest will be payable during the term of the Investec Loans. Instead, interest will accrue and compound on an annual basis. The interest together with the principal, will be payable upon redemption at maturity provided that the internal rate of return achieved by Investec shall be no less than 25% per annum compounded annually on the relevant Investec Loan.

Shareholding upon exchange:	<p>In respect of the First Investec Loan, Investec has the right to exchange the principal amount of loan into 4.93% of the share capital of our Company on a fully diluted basis (but excluding any issue of new shares at the initial public offering of the Shares of our Company (“IPO”). The percentage entitlement is subject to adjustments as follows:</p> <ul style="list-style-type: none">(a) from 4.93% to 5.55%, in the event the net profit after tax for the financial year ended December 31, 2009 less than RMB430,000,000;(b) from 4.93% to 6.17% (or from 5.55% to 6.78% if paragraph (a) applies) in the event the net profit after tax for either of the financial years ended December 31, 2010 or 31 Dec 2011 less than RMB700,000,000 or RMB1,200,000,000, respectively; <p>Investec has acknowledged that the Company had met the profit targets prescribed in the Exchangeable Loan Documents for the financial year ended December 31, 2009, 2010 and 2011 and accordingly, the above adjustment to the percentage entitlement will not apply upon exchange of the First Investec Loan.</p> <p>In respect of the Second Investec Loan, Investec has the right to exchange the principal amount of loan into 2.092% of the share capital of our Company on a fully diluted basis (but excluding any issue of new shares at IPO).</p>
Qualified IPO adjustment (in respect of the First Investec Loan only):	<p>If the IPO market capitalization of our Company exceeds US\$2 billion, Investec shall accept a reduction in its entitlement by 0.5% of the share capital of our Company on a fully diluted basis (but excluding any issue of new shares at IPO).</p> <p>Investec has confirmed that the Global Offering is a qualified IPO and that it accepted a reduction in its entitlement by 0.5% of the share capital of our Company as aforementioned.</p>
Cash reimbursement (in respect of the Second Investec Loan only):	<p>If the value of the exchanged Shares at the IPO is less than the principal of the Second Investec Loan together with interest accrued thereon, Investec will be entitled to a cash reimbursement of the shortfall.</p> <p>Considering the expected market capitalization of our Company upon the Listing, it is not expected that any such shortfall would arise or that Investec would be entitled to any cash reimbursement.</p>

Put Option (in respect of the Second Investec Loan only):	<p>If Investec exercises its exchange rights and the Company fails to consummate a qualified IPO with a market capitalization of at least US\$2 billion on or before the maturity date, Investec will have the right to have its shares redeemed by Driven Goal at a price equal to the principal of the loan together with interest accrued thereon.</p> <p>As the expected market capitalization of our Company upon the Listing is significantly higher than US\$2 billion, the above put option shall not apply.</p>
Exchange Period:	<p>In respect of the First Investec Loan, exchange period means the period commencing from January 19, 2012, being the expiry of the twenty fourth month after the first drawdown date, and ending on the maturity date.</p> <p>In respect of the Second Investec Loan, exchange period means the period commencing from the date being one business day after the price range determination date for the Offer Shares and ending on the maturity date.</p>
Investec's Rights:	<ul style="list-style-type: none">(a) right to receive certain financial statements and other information about the Group Companies(b) right to inspect facilities, records and books of the Group Companies and right to discuss the business, operations and conditions of any Group Company(c) right to nominate one observer to each of the board of directors of any of the Group Companies. <p>Investec's rights set out in paragraphs (a) to (c) are conditioned upon the Investec Loans remaining outstanding and payable and in addition, Investec's right set out in paragraph (c) will fall away upon completion of the IPO.</p>
Repayment at Maturity:	<p>If on the Maturity Date, Investec has not exercised its exchange rights, Driven Goal shall repay the Investec Loan(s) and all interests accrued thereon, together with any other amount owing to Investec under the Exchangeable Loan Documents to Investec.</p> <p>Investec has confirmed that it will exercise its exchange rights upon the IPO.</p>
Mandatory Repayment:	<p>If there occurs a change of control in relation to Driven Goal or any member of the Group prior to the IPO, the Investec Loans shall be repayable upon demand.</p>
Repayment on Event of Default:	<p>Save as otherwise consented to by Investec, if one or more of the events of default occurs, Investec may declare that the relevant Investec Loan be repaid with a penalty interest of 15% per annum accrued on all amounts outstanding.</p>

An event of default means, inter alia, any of the following events:

- (a) any breach of the terms of the Exchangeable Loan Documents in any material respect by Driven Goal and/or the Wei Family;
- (b) any significant breach of any other contract entered into by Driven Goal and/or the Group Companies under those contracts which would result in a material adverse effect;
- (c) any consent, authorization, license or approval of, or registration with or declaration to, governmental or public bodies or authorities or courts required for or being necessary on the part of Driven Goal or the Wei Family to authorize, or required for Driven Goal or the Wei Family in connection with, the execution, delivery, performance, validity, enforceability of the Exchangeable Loan Documents (if any), is withdrawn or otherwise cease to have effect;
- (d) any judgment or court order made against Driven Goal or the Wei Family which would result in a material adverse effect;
- (e) any of Driven Goal or the Wei Family is unable to pay its debts as they fall due;
- (f) any petition is presented for winding up or liquidating any of the Group Companies and which is not discharged within 30 days of the presentation of the petition or any court order is granted for winding up or liquidating any of the Group Companies or any of the Group Companies is in the process of liquidation;
- (g) any encumbrancer takes possession or any receiver, manager or other similar officer is appointed for any of the Group Companies or any part of its assets, property or revenue and/or undertakings or the directors of the Group Companies which would result in a material adverse effect;
- (h) any steps are taken, or negotiations are commenced, by any of the Group Companies or by any of its creditors with a view to proposing any kind of moratorium, composition, compromise or arrangement which could reasonably be expected to result in or would result in a material adverse effect;
- (i) Driven Goal or any Group Company has ceased to carry on its business or materially changes its business which would result in a material adverse effect;

- (j) any governmental or other authority expropriates, seizes, or compulsorily acquires or threatens to expropriate, seize or compulsorily acquire all or any substantial part of the business, assets and properties, or revenues, or shares of or other ownership in the Group;
- (k) the audited accounts of any of the Group Companies being the subject of qualification by the auditors of our Company;
- (l) the performance or observance or compliance by Driven Goal of any of its material obligations contained in the Exchangeable Loan Documents becomes unlawful, or would otherwise result in any material terms contained in the Investec Loans be or becoming unenforceable; and
- (m) any declaration of dividend by Driven Goal or any Group Company at any time the Investec Loans remain outstanding, subject to certain exceptions.

Guarantees:

The obligations of Driven Goal under and in connection with the Investec Loans are guaranteed by the Wei Family.

Share Charges:

49.9% of the ordinary shares of Driven Goal, our Company, Advanced Grade, TurboRICH, Vivid Rise, China Venture and China Vision were pledged to Investec as second-ranking security on March 21, 2012.

All the above share charges shall be released immediately before the IPO.

Post-IPO Lock-up:

Investec has agreed to undertake not to transfer any Shares it holds for a period of six months following the completion of the IPO.

Use of Proceeds:

The amounts drawn under the First Investec Loan shall be used for:

- (a) consolidating Driven Goal's ownership of Jinzhou DPF-TH and facilitating the restructuring of Driven Goal and the Group;
- (b) enabling Driven Goal to make an intra-group loan to Advanced Grade to allow it to increase its interest in Jinzhou DPF-TH;
- (c) funding the settlement between the Wei Family, certain members of the Group and pre-existing shareholders of preference and ordinary shares in the Company; and

- (d) enabling Driven Goal to make an intra-group loan to Jinzhou DPF-TH or to make an equity injection into Jinzhou DPF-TH to fund its working capital.

The amounts drawn under the Second Investec Loan shall be used by Driven Goal for the granting of shareholder's loans to its subsidiaries for general working capital purposes.

As at the Latest Practicable Date, the amounts available under the Investec Loans have been fully utilized but the Investec Loans remain outstanding.

Strategic benefits to our Company: Our Directors believe that Investec provides financial support for our continuing development and growth.

As at the Latest Practicable Date, none of the Investec Loans has been redeemed or exchanged into Shares of our Company. Investec has confirmed to the Wei Family and Driven Goal that it will exercise its exchange rights in accordance with the Exchangeable Loan Documents so as to obtain Shares at the IPO. Accordingly, Investec will cease to have the special rights described in this appendix upon the occurrence of the IPO when it exercises its exchange rights in accordance with the Exchangeable Loan Documents to obtain Shares at the IPO.

B. Series A Preferred Shares

Set forth below is a summary of the shareholders agreement between MSPEA, Victor Keen, the Wei Family, Gain Elite, Crown Indigo, MegaSky, Elite Choice, Grace Harvest and Driven Goal, the principal terms and conditions of the Series A Preferred Shares (as defined below) and the documents associated therewith ("**Series A Documents**"):

Name of Investors:	MSPEA
	Victor Keen
Instrument:	Series A convertible redeemable preferred shares
Date of Investment:	March 8, 2012 in respect of MSPEA
	May 17, 2012 in respect of Victor Keen
Subscription Price:	US\$300,000,000 in respect of MSPEA
	US\$30,000,000 in respect of Victor Keen
Payment Date:	March 21, 2012 in respect of MSPEA
	May 18, 2012 in respect of Victor Keen
Issue Date:	March 21, 2012 in respect of MSPEA
	May 18, 2012 in respect of Victor Keen

Maturity Date:	December 31, 2016
Dividends:	Except for a one-time cash dividend in an amount up to RMB500,000,000 no later than six (6) months prior to the completion of the IPO, if Driven Goal declares, pays or sets apart for payment any dividend or distribution, then Driven Goal shall simultaneously pay a dividend or distribution on each outstanding Series A Preferred Share in an amount equal to the dividend or distribution payable on each ordinary share multiplied by the number of ordinary shares issuable upon conversion of a Series A Preferred Share.
Liquidation Preference:	In the event of liquidation, the holders of the Series A Preferred Shares shall be entitled to receive, out of the assets available for distribution before any payment shall be made to the holders of ordinary shares of Driven Goal, an amount equal to the greater of (i) an amount per Series A Preferred Share that would yield a total internal rate of return of 25% to such holder and (ii) such amount per share as would have been payable on such liquidation had all Series A Preferred Shares been converted into Shares.
Shareholding upon exchange in respect of the Series A Preferred Shares:	<p>The shareholding of each of MSPEA and Victor Keen upon conversion of the Series A Preferred Shares is based on the formula below:</p> <p>number of Shares upon exchange =</p> <p><i>Series A Preferred Shares original issue price plus an amount equal to any declared and unpaid dividends per Series A Preferred Share prior to the completion of a Qualified IPO x number of Series A Preferred Shares being converted / the initial conversion price of US\$581.62 per share (subject to adjustment)</i></p> <p>Provided that the number of Series A Preferred Shares held by (i) MSPEA shall at all times be convertible into at least 9.35% of the total issued shares of the Company on a fully diluted basis (excluding any impact of issuance of new shares in the IPO); (ii) Victor Keen shall at all times be convertible into at least 0.935% of the total issued shares of the Company on a fully diluted basis (excluding any impact of issuance of new shares in the IPO).</p>
Conversion Period:	<p>Commencing from the issue date and ending on the maturity date.</p> <p>The Series A Preferred Shares shall be automatically and mandatorily exchanged into Shares upon completion of the IPO.</p>

- Key matters requiring the prior consent of the holder of 50.1% or more of the Series A Preferred Shares outstanding:
- In respect of Driven Goal, the Company and its subsidiaries:
- (a) changing the scope of business of any member of the group, approving the entry into or development of any new line of business;
 - (b) undertaking any reorganization or restructuring or similar changes to the share capital of any member of the group;
 - (c) permitting any new investment or acquisition of assets or businesses or equity interest where the consideration for which individually or in the aggregate exceeds US\$20 million in any consecutive 12-month period (but not including any investment in or acquisition of production lines for lubricant additives that does not exceed US\$40 million in any consecutive 12-month period);
 - (d) issuing, redeeming or repurchasing any authorized or issued share;
 - (e) declaring, paying or setting apart for payment any dividend other than the onetime cash dividend of RMB500,000,000 payable to Gain Elite, MegaSky and Crown Indigo, making any payment of, or setting apart for payment for a sinking or other fund for the purchase, redemption or retirement of any shares ranking on parity with the Series A Preferred Shares, junior shares of Driven Goal that do not expressly rank *pari passu* with or senior to the Series A Preferred Shares (“**Junior Shares**”) or equity securities convertible into any shares ranking on parity with the Series A Preferred Shares or Junior Shares, permit any entity controlled by Driven Goal to purchase or redeem any shares ranking on parity with the Series A Preferred Shares, Junior Shares or any equity securities of Driven Goal, subject to certain limited exceptions;
 - (f) amending, modifying or waiving any provision of the memorandum or articles of association or constitutional documents;
 - (g) selling or disposing of assets to third parties with a value in excess of RMB50 million individually or in the aggregate over any consecutive 12 month period;
 - (h) merge, amalgamate or consolidate any member of the group with any other person other than a member of the group;

- (i) initiating any proceedings under any bankruptcy, insolvency or similar law or seeking the appointment of a receiver, trustee, custodian or other similar official for any member of the group or any substantial part of its property or making a general assignment for the benefit of its creditors or admitting in writing its inability to repay its debts as they fall due;
- (j) permitting entry into any transactions with a connected person, subject to certain exceptions;
- (k) permitting a debt-equity ratio to exceed 1.5 to 1 at the close of business of the last day of any financial quarter;
- (l) permitting the interest coverage ratio to be lower than 10 to 1, on a trailing 12-month basis, at the close of business on the last day of any financial quarter;
- (m) permitting Driven Goal to engage in any activity other than the holding of the shares of the Company or cease to directly hold 100% of the total issued share capital of the Company;
- (n) permitting Driven Goal to incur obligations or liabilities (such as bank loans, guarantee obligations and other indebtedness) on a standalone and unconsolidated basis, subject to certain exceptions; and
- (o) amend, modify or waive any provision of certain existing agreements conferring on certain third parties a right to Shares of our Company to the extent that MSPEA has provided a reasonable explanation that such amendment, modification or waiver would adversely affect the interests of the holders of the Series A Preferred Shares.

Rights of MSPEA:

MSPEA shall have the following rights prior to the IPO, including:

- (a) right to nominate one director to the board of directors of Driven Goal, our Company and other members of the Group and remove the directors nominated;
- (b) pre-emptive rights over the new issues of equity securities by Driven Goal;
- (c) right of first refusal over any proposed transfer of equity securities by Gain Elite, Crown Indigo or MegaSky in Driven Goal;
- (d) tag-along rights over any proposed transfer of equity securities by Gain Elite, Crown Indigo or MegaSky in Driven Goal;

- (e) rights to receive certain prescribed information about our Company;
- (f) in case the Group fails to meet a profit target, an adjustment to the minimum shareholding of MSPEA shall apply; and
- (g) usual and customary adjustments for dilutive events to the initial conversion price.

Rights of Victor Keen:

Victor Keen shall have the following rights prior to the IPO, including:

- (a) right to nominate an observer to the board of directors of Driven Goal;
- (b) pre-emptive rights over the new issues of equity securities by Driven Goal;
- (c) right of first refusal over any proposed transfer of equity securities by Gain Elite, Crown Indigo or MegaSky in Driven Goal;
- (d) tag-along rights over any proposed transfer of equity securities by Gain Elite, Crown Indigo or MegaSky in Driven Goal;
- (e) rights to receive certain prescribed information about our Company;
- (f) in case the Group fails to meet a profit target, an adjustment to the minimum shareholding of Victor Keen shall apply; and
- (g) usual and customary adjustments for dilutive events to the initial conversion price.

Right of First Offer:

After qualified IPO,

- (a) for as long as the MSPEA nominee director remains on the board; or
- (b) if the MSPEA nominee director (i) has been removed from or has been requested by Driven Goal, MSPEA and/or any applicable regulator to resign from the board for cause or (ii) has voluntarily resigned (except where Gain Elite, MegaSky and Crown Indigo have conveyed to the MSPEA nominee director that he is no longer welcome on the board),

if MSPEA proposes to sell or otherwise dispose of any Shares, Gain Elite, Crown Indigo or MegaSky shall have a right of first offer with respect to such Shares.

As this right of first offer is a pure contractual right between shareholders of Driven Goal, it shall be allowed to survive completion of the IPO in accordance with Section 3.1(l) of Guidance Letter HKEx-GL43-12 issued by the Hong Kong Stock Exchange in October 2012 and as updated in July 2013.

Redemption at Maturity:

All the Series A Preferred Shares remaining outstanding on the maturity date shall be redeemed by Driven Goal at a price that would yield a total internal rate of return of 25% to the holder of the Series A Preferred Shares.

Redemption on Event of Default:

If one or more of the following events of default occurs at any time after the issue date, a holder of Series A Preferred Shares may require Driven Goal to redeem all or part of the outstanding Series A Preferred Shares at a price that would yield a total internal rate of return of 25% to the holder of the Series A Preferred Shares.

- (a) the failure to complete a qualified IPO on or prior to the maturity date;
- (b) the commencement by Driven Goal or any member of its group under any bankruptcy, insolvency, reorganization or other similar applicable law of any case or proceeding to be adjudicated a bankrupt or insolvent, otherwise than for the purpose of or pursuant to a solvent internal consolidation, amalgamation, merger or reorganization of Driven Goal or any other member of the Group;
- (c) the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of Driven Goal or any other member of its group for the winding up or liquidation of its assets and which appointment is not discharged within 10 days otherwise than for the purpose of or pursuant to a solvent internal consolidation, amalgamation, merger or reorganization of Driven Goal or any other member of the Group;
- (d) change of control of Gain Elite or Driven Goal;
- (e) any present or future indebtedness of Gain Elite or any other member of its group becomes due and payable prior to its stated maturity by reason of any default, event of default or the like or any such indebtedness is not paid when due or within any applicable grace period (as the case may be); or
- (f) Gain Elite or any member of its group is in default of any of its obligations to any investor holding equity

securities in Gain Elite or any member of its group and such default is not remedied within the applicable grace period.

If an event of default arises as a result of a material breach of the Series A Documents, a holder of Series A Preferred Shares may require Driven Goal to redeem all or part of the outstanding Series A Preferred Shares at a price that would yield a total internal rate of return of 30% to the holder of the Series A Preferred Shares.

Qualified IPO:

An IPO of the group with the market capitalization of US\$7.8 billion if the IPO is completed in 2014, US\$9.2 billion if the IPO is completed in 2015 and US\$10 billion if the IPO is completed in 2016.

Notwithstanding the above, each of MSPEA and Victor Keen has agreed that the Global Offering shall be deemed a qualified IPO.

Share Charges:

51% of the ordinary shares in Driven Goal, our Company, Advanced Grade, TurboRich, Vivid Rise, China Venture and China Vision were pledged as first ranking security in favor of MSPEA on March 21, 2012 (as amended on May 18, 2012).

5.1% of the ordinary shares in Driven Goal, our company, Advanced Grade, TurboRich, Vivid Rise, China Venture and China Vision were pledged as first ranking security in favor of Victor Keen on May 18, 2012.

All the above share charges shall be released immediately before the IPO.

Transferability:

The Series A Preferred Shares may only be transferred subject to the provisions in the shareholders agreement.

IPO Sale:

Gain Elite, Crown Indigo or MegaSky may request each of MSPEA and Victor Keen to sell up to 20% of the total number of Shares held by such investor (assuming full conversion of the Series A Preferred Shares) as part of the IPO.

MSPEA may elect to sell up to 30% of the total number of Shares held by MSPEA (assuming full conversion of the Series A Preferred Shares) as part of the IPO.

Victor Keen may elect to sell up to 100% of the total number of Shares held by Victor Keen (assuming full conversion of the Series A Preferred Shares) as part of the IPO.

Post-IPO Lock-up: Without prejudice to the IPO sale right above, if required by the Hong Kong Stock Exchange, each of MSPEA and Victor Keen shall not transfer the Shares held by it for a period up to six (6) months after the IPO.

None of the Gain Elite, Crown Indigo or MegaSky may, directly or indirectly, sell or otherwise dispose of any Shares for a period of 18 months after the IPO, except for top-up placements which do not change the total number of Shares held by Gain Elite, Crown Indigo and MegaSky.

After the 18-month period, so long as either MSPEA and its affiliates collectively, or Victor Keen and its affiliates collectively, hold 20% of the total number of its original number of Shares (assuming full conversion of the Series A Preferred Shares), Gain Elite, Crown Indigo or MegaSky may not directly or indirectly, transfer any shares if such transfer will cause Gain Elite, Crown Indigo and MegaSky to cease to be a “controlling shareholder” under the Listing Rules.

Use of Proceeds: The proceeds from the issue of the Series A Preferred Shares to MSPEA were used towards the repayment of the BOCI Loans and the Victor Gloss Loans and the expansion of the business and operations and capital expenditure of our Group. As at the Latest Practicable Date, the proceeds from the issue of the Series A Preferred Shares to MSPEA have been fully utilized and the BOCI Loans and Victor Gloss Loans have been fully repaid.

The proceeds from the issue of the Series A Preferred Shares to Victor Keen were used for general working capital for the Group. As at the Latest Practicable Date, the proceeds from the issue of the Series A Preferred Shares to Victor Keen have been fully utilized.

Strategic benefits to our Company: Our Directors believe that MSPEA brings industry expertise and global resources that help with our Company’s global market reach and increase cooperation with overseas partners.

As at the Latest Practicable Date, none of the Series A Preferred Shares has been redeemed or exchanged into Shares of our Company.

Each of MSPEA and Victor Keen acknowledged that the Company had met the profit targets prescribed in the Series A Documents for the financial year ended December 31, 2012 and accordingly, no adjustment to the conversion price will apply upon conversion of the Series A Preferred Shares. Except for the right of first offer of Gain Elite, Crown Indigo and MegaSky, MSPEA and Victor Keen

will cease to have the special rights described in this Part B of the appendix upon the full conversion of the Series A Preferred Shares, which will mandatorily occur upon the IPO.

C. Exchangeable Bonds

Set forth below is a summary of the principal terms and conditions of the investment agreement between Gain Elite and PAG and the documents associated with the Exchangeable Bonds (“**PAG Investment Documents**”):

Name of Investor:	PAG
Instrument:	Exchangeable bonds
Date of Investment:	August 21, 2012
Principal Amount:	US\$35,294,117.65
Issue Price:	100% of the principal amount of the Exchangeable Bonds
Payment Date:	August 23, 2012
Issue Date:	August 23, 2012
Maturity Date:	August 23, 2015
Interest Rate:	Interest is payable on the Exchangeable Bonds in an amount that would yield a total internal rate of return of 25% to PAG until the redemption date or the maturity date.
Payment of Interest:	No interest will be payable during the term of the Exchangeable Bonds but will accrue on a compounding basis and such interest is payable together with the principal, at an amount that would yield a total internal rate of return of 25% to PAG, upon redemption of the Exchangeable Bonds or at maturity.
Shareholding upon exchange in respect of the Exchangeable Bonds:	The shareholding of PAG upon exchange of the Exchangeable Bonds is based on the formula below: $\text{number of Shares upon exchange} = \frac{\text{(the aggregate principal amount of the Exchangeable Bonds to be exchanged)}}{\text{the aggregate principal amount of the bonds of US\$35,294,117.65} \times 1\% \times \text{number of Shares outstanding at the exchange date (excluding any shares to be issued as part of the IPO)}}$
Exchange Period:	Commencing from the date on which the listing committee of the recognized stock exchange shall have given its in-principle approval for the IPO and ending on the Maturity Date.

The Exchangeable Bonds shall be automatically and mandatorily exchanged into Shares upon completion of the IPO.

Rights of PAG:

PAG shall have the following rights prior to the IPO, including:

- (a) pre-emptive rights over the new issues of equity securities of Gain Elite, Driven Goal and our Company;
- (b) tag-along rights over any proposed transfer of equity securities of the Company by the Wei Family, Gain Elite, Crown Indigo or MegaSky in Driven Goal; and
- (c) rights to receive certain prescribed information about our Company; and
- (d) usual and customary adjustments for dilutive events to the number of Shares upon exchange.

Status:

The right of PAG to receive any payment from Gain Elite in relation to the Exchangeable Bonds shall be subordinated to the payment in full of all amounts due and payable by Gain Elite to MSPEA and Victor Keen (or their respective affiliates) under the terms of the Series A Preferred Shares.

Subject to the foregoing, the Exchangeable Bonds constitute direct, senior, unsubordinated, unconditional and secured obligations of Gain Elite and shall at all times rank *pari passu* and rateably without preference or priority amongst themselves.

Redemption at Maturity:

Unless previously redeemed, exchanged or purchased and cancelled, all the remaining outstanding Exchangeable Bonds shall be redeemed by Gain Elite on the maturity date.

Redemption on Event of Default:

Save as otherwise consented to by PAG, if one or more of the events of default occurs at any time after August 23, 2012, any bondholder may require Gain Elite to redeem all or part of the un-exchanged outstanding Exchangeable Bonds at a price that would yield a total internal rate of return of 25% to PAG.

An event of default means, inter alia, any of the following events:

- (a) the failure to complete a qualified IPO on or prior to the maturity date;
- (b) any failure by Gain Elite to pay the principal and/or any interest due and payable on the Exchangeable Bonds or

- any other amount due and payable under the Exchangeable Bonds on their due date in the manner specified in the PAG Investment Documents;
- (c) a change of control in Gain Elite or Driven Goal;
 - (d) the occurrence of a material breach by Gain Elite of any obligation under any PAG Investment Document and such breach or default cannot be remedied or has not been remedied within 30 days after notice of such breach or default is given by PAG to Gain Elite;
 - (e) (A) any other present or future indebtedness of Gain Elite or any other member of its group becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or within any applicable grace period (as the case may be);
 - (f) Gain Elite or any member of the Group is in default of any of its obligations to any investor holding equity securities in Gain Elite or any member of its group and such default is not remedied within any applicable grace period;
 - (g) the commencement by Gain Elite or any member of the Group under any bankruptcy, insolvency, reorganization or other similar applicable law of any case or proceeding to be adjudicated a bankrupt or insolvent, otherwise than for the purpose of or pursuant to a solvent internal consolidation, amalgamation, merger or reorganization of Gain Elite or any other member of its group; or
 - (h) the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of Gain Elite or any other member of its group for the winding up or liquidation of its assets and which appointment is not discharged within 10 days otherwise than for the purpose of or pursuant to a solvent internal consolidation, amalgamation, merger or reorganization of Gain Elite or any other member of its group.

Qualified IPO:

An IPO of the Group with a market capitalization of US\$7.8 billion if the IPO is completed in 2014, US\$9.2 billion if the IPO is completed in 2015 and US\$10 billion if the IPO is completed in 2016.

Notwithstanding the above, PAG has agreed that the Global Offering shall be deemed a qualified IPO.

- Share Charges: 5.3% of the ordinary shares in Driven Goal, our Company, Advanced Grade, TurboRich, Vivid Rise, China Venture and China Vision were pledged as first ranking security in favor of PAG on August 23, 2012. All the above share charges shall be released no later than the date of completion of the IPO.
- Transferability: The Exchangeable Bonds may only be transferred subject to the provisions in the Exchangeable Bond Investment Documents.
- Post-IPO Lock-up: PAG has undertaken to Gain Elite that, unless the prior written consent from Gain Elite is obtained, for a period of six months from the completion of the IPO it shall not:
- (a) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests therein beneficially owned or held by PAG or any securities convertible into or exercisable or exchangeable for or substantially similar to any such Shares or interests;
 - (b) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Shares, whether any arrangement described above is to be settled by delivery of the Shares or such other securities, in cash or otherwise; or
 - (c) announce any intention to enter into or effect any such transaction described above.
- Use of Proceeds: The proceeds from the issue of the Exchangeable Bonds were used towards the general investment purposes of Wei Qi, Wei Xuan and Wei Xiao as individual shareholders. As at the Latest Practicable Date, the proceeds from the issue of the Exchangeable Bonds have been fully utilized.
- Strategic benefits to our Company: Our Directors believe that the presence of PAG as an investor in our Company will broaden our investor base so as to attract high quality investors and boost investor confidence in our Company.

As at the Latest Practicable Date, none of the Exchangeable Bonds has been redeemed or exchanged into Shares of our Company.

PAG will cease to have the special rights described in this appendix upon the full exchange of the Exchangeable Bonds, which will mandatorily occur upon the IPO.

D. Warrants

Set forth below is a summary of the principal terms and conditions of the warrant instrument entered into among Driven Goal, the Wei Family and BOCI in relation to the BOCI Warrants (“**BOCI Warrant Instrument**”) and the warrant instrument entered into between Driven Goal and Victor Gloss in relation to the Victor Gloss Warrants (“**Victor Gloss Warrant Instrument**”):

Name of Investors:	BOCI Victor Gloss
Instrument:	Warrants
Date of Investment:	July 2, 2010 in respect of BOCI May 4, 2010 in respect of Victor Gloss
Aggregate Warrant Amount:	US\$63,500,000 in respect of BOCI US\$59,130,000 in respect of Victor Gloss
Payment Date:	N.A.
Issue Date:	November 29, 2013
Termination Date:	December 31, 2016
Exercise Period:	From November 29, 2013 until December 31, 2016, conditional upon the completion of the IPO.
Shareholding upon exercise of the warrants:	The shareholding of BOCI upon exercise of the warrants is based on the formula below: number of Shares upon exercise = <i>Aggregate warrant amount / Offer Price</i>
Cash Settlement:	Each of BOCI and Victor Gloss shall have the right to elect for a cash settlement, in lieu of receiving Shares, upon exercise of the warrants based on the formula below: Cash settlement amount = <i>Aggregate warrant amount x the warrant amount in respect of the warrants being exercised / Aggregate warrant amount.</i> Each of BOCI and Victor Gloss has notified Driven Goal that they will elect for cash settlement in lieu of receiving Shares.

Transferability:	The warrants and all rights thereunder are transferable in accordance with the provisions in the BOCI Warrant Instrument and the Victor Gloss Warrant Instrument.
Right to participate in IPO:	Each of BOCI and Victor Gloss shall have a right to nominate an affiliate to a non-exclusive role as a joint bookrunner and joint lead manager of the IPO.
IPO Sale:	<p>Each of BOCI and Victor Gloss shall have the right to sell a portion of its Shares upon the exercise of the warrants at the IPO based on the following formula:</p> <p>Number of Shares permitted to be sold at IPO =</p> <p><i>the number of existing Shares to be sold by Driven Goal as part of the share offering in the IPO / the total number of issued shares outstanding (excluding any shares to be issued as part of the IPO) x the number of Shares to be transferred from Driven Goal to BOCI or Victor Gloss (as the case may be) pursuant to its exercise of the warrants.</i></p>
Post-IPO Lock-up:	Without prejudice to the IPO sale right above, each of BOCI and Victor Gloss covenants with and undertakes to Driven Goal it will not dispose of any of our Shares or interest in any company or entity holding any of our Shares at any time during the period of six (6) months following the IPO date.
No less favorable treatment with BOCI (in respect of the Victor Gloss Warrant Instrument):	Subject to compliance with applicable laws, Driven Goal may not issue warrants or other securities to BOCI or any of its affiliates on certain terms which are more favorable than those granted to Victor Gloss under the Victor Gloss Warrant Instrument unless such more favorable term(s) are also made available to Victor Gloss.
Use of Proceeds:	<p>The BOCI Original Equity Instruments and Victor Gloss Original Equity instruments (which were subsequently restructured into the BOCI Warrants and Victor Gloss Warrants respectively) were issued in connection with the BOCI Loans and the Victor Gloss Loans respectively.</p> <p>The amounts under the BOCI Loans were used for shareholder's loans for the purpose of funding capital injections into North China Petrochemical and Sino Asia Petrochemical, and Jinzhou DPF-TH.</p> <p>The amounts under the Victor Gloss Loans were used to repay the outstanding sums owed to Lian Jie International Investment Limited, repay partially the BOCI Loans and with the remaining surplus funds to be used for shareholder's loans to Jinzhou DPF-TH as general working capital.</p>

As at the Latest Practicable Date, the amounts available under the BOCI Loans and Victor Gloss Loans have been fully utilized and repaid.

Strategic benefits to our Company:

Our Directors believe that BOCI and Victor Gloss provided financial support for our continuing development and growth.

As at the Latest Practicable Date, none of the BOCI Warrants or Victor Gloss Warrants has been redeemed or exchanged into Shares of our Company.

Each of BOCI and Victor Gloss will cease to have the special rights described in this appendix upon the exercise of the warrants at the IPO.

Set out below is a summary of the investments by the Pre-IPO Investors:

Name of Pre-IPO Investor	Convertible Instrument	Date of investment/agreement	Consideration paid (US\$)	Payment date of consideration	Use of proceeds from the pre-IPO investment and utilization	Number of Shares to be exchanged upon full exchange of the Convertible Instruments	Cost per Share paid HK\$ ⁽¹⁾	Effective discount to the Offer Price ⁽²⁾	Approximate shareholding in our Company immediately before Listing	Approximate percentage of shareholding in our Company immediately upon Listing ⁽³⁾
Investec	Exchangeable loans to Driven Goal	January 15, 2010 (the First Investec Loan) and December 24, 2010 (the Second Investec Loan)	37 million (the First Investec Loan) and 30 million (the Second Investec Loan)	January 19, 2010, February 9, 2010 and February 18, 2010 (the First Investec Loan) and December 30, 2010 (the Second Investec Loan)	The amounts drawn under the First Investec Loan were used for: (a) consolidating Driven Goal's ownership of Jinzhou DPF-TH and facilitating the restructuring of Driven Goal and the Group; (b) enabling Driven Goal to make an intra-group loan to Advanced Grade to allow it to increase its interest in Jinzhou DPF-TH; (c) funding the settlement between the Wei Family, certain members of the Group and pre-existing shareholders of preference and ordinary shares in the Company; and (d) enabling Driven Goal to make an intra-group loan to Jinzhou DPF-TH or to make an equity injection into Jinzhou DPF-TH to fund its working capital.	1,532,017,000	0.34	83.00%	6.522%	6,000%
					The amounts drawn under the Second Investec Loan were used by Driven Goal for the granting of shareholder's loans to its subsidiaries for general working capital purposes. Proceeds from each exchangeable loan has been fully utilized.					

Name of Pre-IPO Investor	Convertible Instrument	Date of investment/agreement	Consideration paid (US\$)	Payment date of consideration	Use of proceeds from the pre-IPO investment and utilization	Number of Shares to be exchanged upon full exchange of the Convertible Instruments	Cost per Share paid HK\$(¹)	Effective discount to the Offer Price(²)	Approximate percentage of shareholding in our Company immediately before Listing	Approximate percentage of shareholding in our Company immediately upon Listing(³)
MSPEA	Series A Preferred Shares in Driven Goal	March 8, 2012	300 million	March 21, 2012	Repayment of the BOCI Loans and the Victor Gloss Loans and the expansion of the business and operations and capital expenditure of our Group; proceeds have been fully utilized.	2,196,315,000	1.06	47.00%	9.35%	8.602%
Victor Keen	Series A Preferred Shares in Driven Goal	May 17, 2012	30 million	May 18, 2012	General working capital for the Group; proceeds have been fully utilized.	219,631,000	1.06	47.00%	0.935%	0.860%
PAG	Exchangeable Bonds in Gain Elite	August 21, 2012	35,294,117.65	August 23, 2012	General investment purposes of Wei Qi, Wei Xuan and Wei Xiao as individual shareholders; proceeds have been fully utilized.	234,900,000	1.17	41.50%	1.000%	0.920%
BOCI	Warrants	July 2, 2010	N/A	N/A	The BOCI Original Equity Instruments (which were subsequently restructured into the BOCI Warrants) were issued in connection with the BOCI Loans. The amounts under the BOCI Loans were used for shareholder's loans for the purpose of funding capital injections into North China Petrochemical and Sino Asia Petrochemical, and Jinzhou DPF-TH. The BOCI Loans have been fully utilized.	Nil(⁴)	N/A	N/A	Nil	Nil

Name of Pre-IPO Investor	Convertible Instrument	Date of investment/agreement	Consideration paid (US\$)	Payment date of consideration	Use of proceeds from the pre-IPO investment and utilization	Number of Shares to be exchanged upon full exchange of the Convertible Instruments	Cost per Share paid HK\$(¹)	Effective discount to the Offer Price(²)	Approximate percentage of shareholding in our Company immediately before Listing	Approximate percentage of shareholding in our Company immediately upon Listing(³)
Victor Gloss	Warrants	May 4, 2010	N/A	N/A	The Victor Gloss Original Equity Instruments (which were subsequently restructured into the Victor Gloss Warrants) were issued in connection with the Victor Gloss Loans. The amounts under the Victor Gloss Loans were used to repay the outstanding sums owed to Lian Jie International Investment Limited, repay partially the BOCI Loans and with the remaining surplus funds to be used for shareholder's loans to Jinzhou DPF-TH as general working capital. The Victor Gloss Loans have been fully utilized.	Nil(⁴)	N/A	N/A	Nil	Nil

Notes:

- (1) Assuming conversion of US dollars into Hong Kong dollars is based on the exchange rate of US\$1 to HK\$7.7532, and rounded figure.
- (2) Assuming the Global Offering will be conducted at the mid-point of the Offer Price range, being HK\$2.00, and based on the approximate cost per Share as set out in the adjacent column of this table.
- (3) Taking into account the New Shares to be issued in the Global Offering by our Company.
- (4) Each of BOCI and Victor Gloss has elected for cash settlement for the warrants.

This Appendix contains a summary of the Memorandum and Articles of Association of our Company. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors.

Set out below is a summary of certain provisions of the Memorandum of Association and Articles of Association of the Company and certain aspects of BVI Company Law.

Summary of the Constitution of the Company

1 Memorandum of Association

The Memorandum of Association was filed on May 28, 2014, and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the BVI.

1.1 Classes of Shares

The Company is authorized to issue ordinary shares. Pursuant to the Memorandum of Association, the maximum number of shares that the Company is authorized to issue is 50,000,000,000 shares with a par value of US\$0.000001 each.

1.2 Liability of members

Pursuant to the Memorandum of Association, the liability of each member of the Company is limited to:

- (a) the amount from time to time unpaid on that member's shares;
- (b) any liability expressly provided for in the Memorandum or the Articles; and
- (c) any liability to repay a distribution pursuant to section 58(1) of the Companies Act.

There is no provision in the Memorandum and the Articles which provides for the increase of a member's liability to the Company.

The Memorandum of Association is available for inspection at the address specified in Appendix VI in the section headed "Documents Available for Inspection".

2 Articles of Association

The Articles of Association were filed on May 28, 2014, and include provisions to the following effect:

2.1 Directors

- (a) Power to allot and issue Shares

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased number of shares the Company is authorized to issue) shall be at the disposal

of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return applicable to shares or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Act and to any special rights conferred on any members or attaching to any class of shares, any share may, with the sanction of a special resolution of members, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by the Company in general meeting.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any

contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting or by the Directors, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director, who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission, or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power from time to time and at any time to appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by resolution of members remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by resolution of members appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company

may also by resolution of members elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office;
or
- (vii) if he shall be removed from office by a resolution of members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled amounts owing on the shares in the Company or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution of members of the Company.

(j) Proceedings of the Board

The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.2 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles may be made except by special resolution of members of the Company.

2.3 Variation of rights of existing shares or classes of shares

If at any time the authorized shares of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution of members of the Company passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.4 Alteration to the number of shares the Company is authorized to issue

The members of the Company may from time to time by resolution of members increase the maximum number of shares that the Company is authorized to issue.

The Company may from time to time by resolution of members:

- (a) consolidate and divide all or any of its shares into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in

particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

- (b) cancel any shares which at the date of the passing of the resolution of members of the Company have not been taken or agreed to be taken by any person, and diminish the maximum number of shares the Company is authorized to issue by the number of the shares so cancelled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution of members whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares,

provided that where shares are consolidated or sub-divided, the aggregate par value of the new shares must be equal to the aggregate par value of the original shares.

2.5 Special resolution — majority required

A “special resolution of members” is defined in the Articles to mean a resolution passed by a majority of not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 days' notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, a “resolution of members” is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles and includes a resolution approved in writing by all the members of the Company aforesaid.

2.6 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting where a show of hands is allowed, every

member present in person (or, in the case of a member being a corporation, by its duly authorized representative) shall have on vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll, save that the Chairman may, in good faith, allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee) which he represents as that recognized clearing house (or its nominee) could exercise as if such person were an individual member of the Company holding the number and class of shares specified in such authorization.

2.7 Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Hong Kong Stock Exchange may authorize) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.8 Extraordinary general meetings

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the nominal value of the issued shares in the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the nominal value of the issued shares in the Company which carries the right of voting at general meetings of the Company. If the board of Directors does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the board of Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board of Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than a Director) and no such member (not being a Director) shall have any right to inspect any accounts or books or documents of the Company except as conferred by the Companies Act or as authorized by a resolution of the Directors.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every

holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution of members shall be called by notice of not less than 21 days and any other extraordinary general meeting shall be called by not less than 14 days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution of members shall specify the intention to propose the resolution as a special resolution of members. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;

- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing shares and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Hong Kong Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of the Company; and
- (f) a fee of such maximum as the Hong Kong Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the

Company closed at such times for such periods as the Directors may from time to time determine, provided always that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by resolution of members determine provided that such period shall not be extended beyond 60 days in any year). In the event that there is an alteration of book closure dates, the Company shall give at least 5 business days' notice before the announced closure, or the new closure, whichever is earlier. If, however, there are exceptional circumstances (e.g. during a Number 8 or higher typhoon signal and black rainstorm warning) that render the giving of such publication of advertisement impossible, the Company shall comply with these requirements as soon as practicable.

2.12 Power of the Company to purchase its own Shares

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong.

The Directors shall not, unless permitted pursuant to the Companies Act, purchase any of the shares in the Company unless immediately after such purchase the value of the Company's assets exceeds its liabilities and the Company is able to pay its debts as they fall due.

2.13 Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distributions

Subject to the Companies Act and Articles of Association, the Directors may, by resolution of directors, declare a dividend in any currency if they are satisfied, on reasonable grounds that, immediately after the payment of the dividend, the value of the Company's assets exceeds its liabilities and the Company is able to pay its debts as they fall due.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts,

liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the shares in the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by resolution of members resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Unless otherwise directed by the Directors, any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the resolution of members of the Company, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the

value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form that complies with the Listing Rules as the Directors may from time to time approve provided that it shall enable a member of the Company to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing, or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall

be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not earlier than the expiration of 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or subject to the Listing Rules, by electronic communication in the manner

in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by resolution of members determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members held in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney, authorize such person as it thinks fit to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.3 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the amounts paid up on the shares in the Company, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the nominal value of such shares, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the amounts paid up on the issued shares in the Company at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the nominal value of such

shares at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may, with the authority of a special resolution of members of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like authority or sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like authority or sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member or person entitled to such shares by death, bankruptcy or operation of law; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Hong Kong Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

Summary of BVI Company Law and Taxation

1 Introduction

The Companies Act is derived, to a large extent, from English corporate legislation, although there are significant differences between the Companies Act and English corporate legislation. Set out below is a summary of certain provisions of the Companies Act, although this summary does not purport to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the BVI as BVI Business Company on March 8, 2007 under the Companies Act. The Company is required to pay an annual fee to the Registrar of Corporate Affairs in the BVI which is based on the number of shares the company is authorized to issue.

3 Shares

One of the major features of the Companies Act is that the concept of share capital has been abolished.

Instead, a company limited by, or otherwise authorized to issue shares, can now simply state in its memorandum of association the maximum number and classes of shares that the company is authorized to issue. Companies may also divide their shares (including those shares already in issue) into a larger number of shares or combine them into a smaller number of shares in the same class or series, provided that the maximum number of shares the company is permitted to issue is not exceeded. On any such division or combination of shares the aggregate par value (if any) of the new shares must be equal to the aggregate par value of the original shares.

The directors of a company can, at their discretion, issue shares in registered or bearer form (although in order to issue bearer shares there must be an express authorization in the memorandum of association and such bearer shares must be held by an approved custodian) for such consideration and on such terms as they may determine.

Shares can be issued for consideration in any form, provided such consideration is not less than par value where the share is a par value share. Under the Companies Act, the liability of a shareholder to the company, as shareholder, is limited to (a) any amount unpaid on a share held by the shareholder; (b) any liability expressly provided for in the memorandum or articles of the company; and (c) any liability to repay a distribution under section 58(1) of the Companies Act (which relates to the recovery of a distribution made when a company did not satisfy the statutory solvency test).

If so authorized by its memorandum of association, a company can issue more than one class of shares and, if so, the memorandum of association must also specify the rights, privileges, restrictions and conditions which attach to each class.

The Companies Act provides that companies may issue redeemable shares, shares with no rights, limited rights or preferential rights to share in distributions, or shares with no or special or limited or conditional voting rights. They may also, subject to their memorandum of association and articles of association, issue bonus shares, partly or nil paid shares, and fractional shares.

The Companies Act provides that a company may purchase, redeem or otherwise acquire its own shares, either in accordance with the procedure set out in the Companies Act, or any other procedure as provided for in the memorandum of association and articles of association of the company.

Under the provisions in the Companies Act, the directors may make an offer for the company to purchase, redeem or otherwise acquire shares in the company provided that the offer is either (a) to all shareholders and would, if successful, leave the relative voting and distribution rights unaffected, or (b) to one or more shareholders and consented to in writing by all shareholders, or is otherwise permitted by the memorandum of association or articles of association. Where the offer is to one or more shareholders, the directors must pass a resolution to the effect that in their opinion the purchase, redemption or other acquisition would benefit the remaining shareholders, and the proposed offer is fair and reasonable to the company and the remaining shareholders.

Where an acquisition by a company of its own shares would be treated as a distribution, the conditions imposed on distributions (detailed in paragraph 5 below) must be met. The purchase,

redemption or other acquisition by a company of its own shares is not deemed to be a distribution where it is effected pursuant to, inter alia, a right of a shareholder to have his shares redeemed or exchanged for money or other property of the company or where the share is redeemable at the option of the company.

4 Financial Assistance

There is no statutory restriction in the BVI on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of due care, skill and diligence that they are acting in good faith, for a proper purpose and in the interests of the company, that such assistance can be given.

5 Dividends and distributions

The directors of a company may only declare a distribution by the company if they are satisfied, on reasonable grounds, that the company will, immediately after the distribution, satisfy the solvency test set out in section 57(1) of the Companies Act. A company satisfies the solvency test if the value of its assets exceeds its liabilities and it is able to pay its debts as they fall due.

6 Shareholders' Remedies

The Companies Act has introduced a series of remedies available to shareholders. Where a company engages in activity which breaches the Companies Act or the company's memorandum of association and articles of association, the court can issue a restraining or compliance order. Shareholders can also bring derivative, personal and representative actions under certain circumstances. The traditional English basis for shareholders' remedies has also been incorporated into the Companies Act — where a shareholder of a company considers that the affairs of the company have been, are being or are likely to be conducted in a manner likely to be oppressive, unfairly discriminating or unfairly prejudicial to him, he may apply to the court for an order on such conduct.

7 Mergers and Consolidations

Under the Companies Act two or more companies, each a "constituent company", may merge or consolidate.

A merger involves merging two or more companies into one of the constituent companies that will remain as the surviving company and a consolidation involves two or more companies consolidating into a new company. Subject to the memorandum of association and articles of association of the company a merger or consolidation must be authorized by a resolution of shareholders of every class of shares entitled to vote on the merger.

There are differing procedures depending on the type of merger that is taking place. Under the Companies Act a merger may occur between any of the following:

- (a) Two or more companies incorporated under the Companies Act;
- (b) One or more companies incorporated under the Companies Act and one or more companies incorporated under the laws of a jurisdiction outside the BVI where the BVI company is the surviving entity;

- (c) One or more companies incorporated under the Companies Act and one or more companies incorporated under the laws of a jurisdiction outside the BVI where the foreign company is the surviving entity;
- (d) A parent company and one or more of its subsidiaries where the companies are incorporated under the Companies Act;
- (e) A parent company and one or more of its subsidiaries where one or more of the companies are incorporated under the Companies Act, one or more are incorporated under the laws of a jurisdiction outside the BVI and where the BVI company is the surviving company; or
- (f) A parent company and one or more of its subsidiaries where one or more of the companies are incorporated under the Companies Act, one or more are incorporated under the laws of a jurisdiction outside the BVI and where the foreign company is the surviving entity.

Under the Companies Act, a shareholder of a company is entitled to payment of the fair value of his shares upon dissenting from:

- (a) A merger, if the company is a constituent company, unless the company is the surviving company and the shareholder continues to hold the same or similar shares;
- (b) A consolidation, if the company is a constituent company.

The Companies Act sets out the procedure that must be followed in effecting dissenters' rights. Ultimately, if the company and the dissenter fail to agree on the price to be paid for the shares owned by the dissenter, then the statutory procedure provides that the fair value of the shares owned by the dissenter is fixed by three appraisers.

8 Redemption of minority shares

Under the Companies Act and subject to the memorandum of association or articles of association of a company, shareholders of a company holding 90 per cent of the votes of the outstanding shares entitled to vote; and shareholders of a company holding 90 per cent of the votes of the outstanding shares of each class of shares entitled to vote as a class, may give a written instruction to the company directing it to redeem the shares held by the remaining shareholders. Upon receiving this direction, the company must redeem the shares it has been directed to redeem and must give written notice to each shareholder stating the redemption price and the manner by which the redemption will be effected.

The shareholders having their shares compulsorily redeemed are entitled to receive fair value for their shares and may dissent from the compulsory redemption. The Companies Act sets out the procedure that must be followed in effecting dissenters' rights. Ultimately, if the company and the dissenter fail to agree on the price to be paid for the shares owned by the dissenter, then the statutory procedure provides that the fair value of the shares owned by the dissenter is fixed by three appraisers.

9 Disposal of assets

Under the Companies Act and subject to the memorandum of association or articles of association of a company, any sale, transfer, lease, exchange or other disposition, other than a

mortgage, charge or other encumbrance or the enforcement thereof, of more than 50 per cent in value of the assets of the company, if not made in the usual or regular course of the business carried on by the company, requires the approval of the shareholders.

The Companies Act sets out the procedure that must be followed in relation to effecting such a disposal.

10 Accounting and auditing requirements

The Companies Act requires that a company shall cause to be kept proper books of account that (a) are sufficient to show and explain the company's transactions; and (b) will, at any time, enable the financial position of the company to be determined with reasonable accuracy.

11 Register of shareholders

A BVI Business Company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside of the BVI, as its directors may, from time to time, think fit. However either the register of members or a copy of the register of members of the BVI Business Company has to be kept at the office of its registered agent in the BVI.

There is no mandatory requirement under the Companies Act for a company to make any filings of shareholder information to the Registrar of Corporate Affairs in the BVI. The names and addresses of the shareholders are, accordingly, not a matter of public record and are not available for public inspection.

12 Inspection of books and records

Subject to the Companies Act, a shareholder of a company will have general right under the Companies Act to inspect or obtain copies of the register of members, the register of directors and minutes of meetings and resolutions of members and of those classes of members of which he is a member. However, subject to the company's memorandum of association and articles of association, the directors may, if they are satisfied that it would be contrary to the company's interests to allow a shareholder to inspect any document (or part of a document) refuse to permit the shareholder to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records.

13 Special resolutions

The Companies Act does not define "special resolution". However a company's memorandum of association and articles of association may make provisions for varying threshold levels of votes required to pass a resolution and require that certain matters may only be approved if passed by a certain percentage of votes.

14 Subsidiary owning shares in parent

The Companies Act does not prohibit a BVI company acquiring and holding shares in its parent company. The directors of any subsidiary making such acquisition must discharge their duties of care and to act honestly and in good faith and in what the director believes to be in the best interests of the company.

Under the Companies Act:-

- (a) a director of a company that is a wholly-owned subsidiary may, when exercising powers or performing duties as a director, if expressly permitted to do so by the memorandum of association and articles of association of the company, act in a manner which he believes is in the best interests of that company's holding company even though it may not be in the best interests of the company.
- (b) a director of a company that is a subsidiary, but not a wholly-owned subsidiary, may, when exercising powers or performing duties as a director, if expressly permitted to do so by the memorandum of association or articles of association of the company and with the prior agreement of the shareholders, other than its holding company, act in a manner which he believes is in the best interests of that company's holding company even though it may not be in the best interests of the company.
- (c) a director of a company that is carrying out a joint venture between the shareholders may, when exercising powers or performing duties as a director in connection with the carrying out of the joint venture, if expressly permitted to do so by the memorandum of association or articles of association of the company, act in a manner which he believes is in the best interests of a shareholder or shareholders, even though it may not be in the best interests of the company.

15 Indemnification

BVI law in general does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, subject to the conditions set out in the Companies Act (e.g. the officer or director has acted honestly and in good faith and in what he believed to be in the best interests of the company and, in the case of criminal proceedings, that officer or director had no reasonable cause to believe that his conduct was unlawful).

16 Liquidation

A company is placed in liquidation either by an order of the court or by a resolution of directors or shareholders. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17 Stamp duty on transfers

No stamp duty is payable in the BVI on transfers of shares of BVI companies incorporated or registered under the Companies Act.

18 Taxation

Companies incorporated or registered under the Companies Act are currently exempt from income and corporate tax. In addition, the BVI currently does not levy capital gains tax on companies incorporated or registered under the Companies Act.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the BVI with respect to any shares, debt obligation or other securities of the Company.

19 Exchange control

There are no exchange control regulations or currency restrictions in the BVI.

20 General

Maples and Calder, our Company's legal advisers on BVI law, have sent to our Company a letter of advice summarizing aspects of BVI company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the section headed "Documents Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of BVI company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. INCORPORATION**

Our Company was incorporated in BVI under the Companies Act on March 8, 2007. Our registered office is at Kingston Chambers, PO Box 173, Road Town, Tortola, BVI. We have established a place of business in Hong Kong at Unit 6208, 62nd Floor, The Center, 99 Queen's Road Central, Hong Kong, which was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on January 16, 2014. Mr. Joseph Lee, who resides in Hong Kong, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process on our Company in Hong Kong is the same as its principal place of business in Hong Kong as set out above.

As our Company was incorporated in BVI, it operates subject to the relevant laws of BVI, a summary of which is set out in Appendix IV to this prospectus.

2. CHANGE IN SHARE CAPITAL OF OUR COMPANY

As at the date of our incorporation, our Company was authorized to issue 50,000 Shares with a par value of US\$1.00 each. The following sets out the changes in our Company's share capital since the date of its incorporation:

On April 11, 2007, one Share of a par value of US\$1.00 was allotted, issued and credited as fully paid to Epoch-Chem Investment Co., Ltd. as the initial subscriber and was further divided into 100 Shares of US\$0.01 each on April 30, 2007.

On April 30, 2007, our memorandum of association was amended so that our Company was thereafter authorized to issue a maximum of up to 5,000,000 Shares of a single class each with a par value of US\$0.01.

On May 18, 2007, 24,200 Shares of US\$0.01 each were allotted, issued and credited as fully paid to Epoch-Chem Investment Co., Ltd. which were transferred to Mr. Wei Qi and subsequently to Driven Goal on February 10, 2010. On the same date 3,500 preference shares were allotted, issued and credited as fully paid to Epoch-Chem Investment Co., Ltd. which were transferred to Driven Goal on February 10, 2010.

On May 18, 2007, 5,700 Shares of US\$0.01 each were allotted, issued and credited as fully paid to Development Partners Fund which were transferred to First China Development Fund, L.P. on May 22, 2008 and later to Mr. Wei Qi on February 10, 2010. On the same date 5,000 preference shares were allotted, issued and credited as fully paid to Development Partners Fund which were transferred to First China Development Fund, L.P. on May 22, 2008. Both the said Shares and preference shares were eventually transferred to Driven Goal on February 10, 2010.

On May 18, 2007, 800 preference shares of US\$0.01 each were allotted, issued and credited as fully paid to Hua VII Venture Capital Corporation which were transferred to Driven Goal on February 10, 2010.

On May 18, 2007, 525 preference shares of US\$0.01 each were allotted, issued and credited as fully paid to Vincera Growth Capital I Limited which were transferred to Driven Goal on February 10, 2010.

On May 18, 2007, 175 preference shares of US\$0.01 each were allotted, issued and credited as fully paid to Preen Group Limited which were transferred to Driven Goal on February 10, 2010.

On December 19, 2007, 5,500 preference shares of US\$0.01 each were allotted, issued and credited as fully paid to VMS Private Investment Partners IV Limited which were transferred to Driven Goal on February 10, 2010.

On December 19, 2007, 1,000 preference shares of US\$0.01 each were allotted, issued and credited as fully paid to Guotai Junan Special Opportunities Limited which were transferred to Driven Goal on February 10, 2010.

On February 11, 2010, Driven Goal redeemed all its 16,500 preference shares. On the same date, it was allotted, issued and credited 16,500 fully paid Shares of a par value of US\$0.01.

On May 22, 2014, the sole Shareholder of the Company passed a shareholder's resolution to subdivide each of the 46,500 issued and 4,953,500 unissued Shares with a par value of US\$0.01 each into 10,000 Shares with a par value of US\$0.000001 each, so that thereafter, (a) the maximum number of Shares which the Company is authorized to issue shall be 50,000,000,000 Shares with a par value of US\$0.000001 each; and (b) the number of issued Shares shall be 465,000,000 Shares of US\$0.000001 each, while the number of the unissued Shares shall be 49,535,000,000 Shares of US\$0.000001 each.

On May 22, 2014, the Directors capitalized US\$23,025 from the reserve account of the Company and applied the said sum in paying up in full 23,025,000,000 Shares at par, such Shares were allotted and issued, credit as fully paid to the then sole Shareholder of the Company, Driven Goal. Subsequent to the capitalization issue, the Company will have 23,490,000,000 issued Shares, which are solely held by Driven Goal.

Other than pursuant to the Global Offering and any options which may be granted under the Share Option Scheme below, the Company does not have any present intention to issue any part of the authorized but unissued Shares and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save for aforesaid and as mentioned in this Appendix and in the section headed "Our History and Corporate Structure" in this prospectus, there has been no alteration in our Company's share capital since the date of our incorporation.

3. RESOLUTIONS IN WRITING OF THE SOLE SHAREHOLDER OF OUR COMPANY

Pursuant to the written resolutions passed by the sole Shareholder on May 22, 2014, the following resolutions, among other resolutions, were duly passed:

- (a) our Company approved and adopted the Memorandum and the Articles of Association and authorized their filing with the Registrar of Corporate Affairs in the BVI and thereby give effect to the same upon filing;
- (b) the Directors were authorized to capitalize US\$23,025 from the reserve account of our Company and that the said sum be applied in paying up in full 23,025,000,000 Shares at par, such Shares to be allotted and issued, credit as fully paid to the sole Shareholder of the Company, Driven Goal, before the Listing, and so that such Shares to be allotted and issued shall rank *pari passu* in all respects with the then existing issued Shares.

- (c) conditional upon both (i) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Global Offering and the exercise of the options which were granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with the terms of such agreements or otherwise:
- (i) the Global Offering be approved and the Directors be authorized to allot and issue the new Shares pursuant to the Global Offering and approve the sale and transfer of the existing Shares by the Selling Shareholders;
 - (ii) the rules of the Share Option Scheme (a summary of which is set out in the paragraph headed “Share Option Scheme” in this Appendix V) was approved and adopted and our Directors were authorized, at their absolute discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot, issue and deal with Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme; and
 - (iii) the proposed Listing of the Shares on the Main Board be approved and the Directors be authorized to implement such Listing;
- (d) a general unconditional mandate was given to the Directors to allot, issue and otherwise deal with the Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue, the exercise of any subscription rights which may be granted under any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our Shareholders) with an aggregate nominal value not exceeding the sum of 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering (excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme);
- (e) a general unconditional mandate was given to the Directors authorizing them to exercise all powers of our Company to repurchase the Shares on the Hong Kong Stock Exchange or on any other recognized stock exchange on which the securities of our Company may be listed representing up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering (excluding any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme); and
- (f) the general unconditional mandate as mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

Each of the general mandates referred to in paragraphs (d), (e) and (f) above will remain in effect until the earlier of (i) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions; (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the BVI or the Articles of Association to be held; or (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting.

4. CORPORATE REORGANIZATION

The companies comprising our Group underwent a Reorganization in preparation for the Listing. For information relating to the Reorganization, please refer to the section headed “Our History and Corporate Structure” in this prospectus.

5. CHANGES IN SHARE CAPITAL OF OUR SUBSIDIARIES

Our Company’s subsidiaries are referred to in the Accountants’ Report in Appendix I to this prospectus. The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

(a) **Tianhe Zhiye**

On March 19, 2013, Tianhe Zhiye was established under the laws of the PRC with a registered capital of RMB8,000,000, which was fully paid up. Tianhe Zhiye was held as to 100% by Jinzhou DPF-TH.

(b) **China Vision**

On March 21, 2012, 900 shares of a par value of HK\$1.00 each were allotted, issued and credited as fully paid to Vivid Rise at a price of HK\$1.00 per share.

Upon the commencement of operation of the Companies Ordinance on March 3, 2014, the par value of the shares of China Vision has for all purposes been regarded as deleted.

(c) **China Venture**

On March 21, 2012, 900 shares of a par value of HK\$1.00 each were allotted, issued and credited as fully paid to TurboRICH at a price of HK\$1.00 per share.

Upon the commencement of operation of the Companies Ordinance on March 3, 2014, the par value of the shares of China Venture has for all purposes been regarded as deleted.

(d) **Tianhe Singapore**

On March 7, 2014, 1,000 shares of a par value of S\$0.01 each were allotted, issued and credited as fully paid to Advanced Grade at par.

For further details, please refer to the section headed “Our History and Corporate Structure” in this prospectus.

Save as set out above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. CORPORATE INFORMATION OF OUR SUBSIDIARIES

A summary of the corporate information and the particulars of our subsidiaries are set out in the “Accountants’ Report” set out in Appendix I to this prospectus.

Save for the subsidiaries mentioned in the Accountants’ Report in Appendix I to this prospectus, our Company has no other subsidiaries.

7. REPURCHASE OF OUR SHARES

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders' approval

All proposed repurchases of securities on the Hong Kong Stock Exchange by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval of a particular transaction.

(Note: Pursuant to resolution passed by the sole Shareholder of our Company on May 22, 2014, a general unconditional mandate (the "Repurchase Mandate") was granted to the Directors authorizing the repurchase by our Company of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued as mentioned herein. Please see "—3. Resolutions in writing of the sole Shareholder of our Company" for details.)

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of BVI. The Articles and the laws of BVI provide that our Company may not repurchase its own shares unless (i) the value of our Company's assets exceeds its liabilities, and (ii) our Company is able to pay its debts as they fall due. A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of BVI.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) Share capital

Exercise in full of the Repurchase Mandate, on the basis of 25,533,000,000 Shares in issue immediately after the listing of the Shares (but without taking into account any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme), could accordingly result in up to 2,553,300,000 Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles to be held; or

(iii) the date on which the Repurchase Mandate is revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first.

(e) **General**

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to us or our subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of BVI.

No connected person (as defined in the Listing Rules) has notified us that he/she or it has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Our Directors are not aware of any other consequences which may arise under the Code if the Repurchase Mandate is exercised.

If the Repurchase Mandate is fully exercised immediately following completion of the Global Offering and the Capitalization Issue (but without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the total number of Shares which will be repurchased pursuant to the Repurchase Mandate will be 2,553,300,000 Shares (being 10% of the aggregate nominal amount of the share capital of our Company in issue based on the aforesaid assumptions). Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the Hong Kong Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Repurchase Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. SUMMARY OF MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) Share charge deed entered into by our Company, PAG and MSPEA dated August 23, 2012, pursuant to which our Company charged 2,650, 5.3 and 5.3 ordinary shares in Advanced Grade, TurboRICH and Vivid Rise, respectively, in favor of PAG;
- (b) Share charge deed entered into by TurboRICH, PAG and MSPEA dated August 23, 2012, pursuant to which TurboRICH charged 53 ordinary shares in China Venture in favor of PAG;








- (c) Share charge deed entered into by Vivid Rise, PAG and MSPEA dated August 23, 2012, pursuant to which Vivid Rise charged 53 ordinary shares in China Vision in favor of PAG;
- (d) Deed of second share charge entered into by our Company, Victor Keen, ICBC International Securities Limited, Advanced Grade and MSPEA dated January 14, 2014, pursuant to which our Company charged 2,550 ordinary shares in Advanced Grade as security to ICBC International Securities Limited;
- (e) Deed of second share charge entered into by our Company, Victor Keen, ICBC International Securities Limited, TurboRICH and MSPEA dated January 14, 2014, pursuant to which our Company charged 5.1 ordinary shares in TurboRICH as security to ICBC International Securities Limited;
- (f) Deed of second share charge entered into by our Company, Victor Keen, ICBC International Securities Limited, Vivid Rise and MSPEA dated January 14, 2014, pursuant to which our Company charged 5.1 ordinary shares in Vivid Rise as security to ICBC International Securities Limited;
- (g) Deed of second share charge entered into by TurboRICH, Victor Keen, ICBC International Securities Limited, China Venture and MSPEA dated January 14, 2014, pursuant to which TurboRICH charged 51 ordinary shares in China Venture as security to ICBC International Securities Limited;
- (h) Deed of second share charge entered into by Vivid Rise, Victor Keen, ICBC International Securities Limited, China Vision and MSPEA dated January 14, 2014, pursuant to which Vivid Rise charged 51 ordinary shares in China Vision as security to ICBC International Securities Limited;
- (i) Deed of second share charge dated January 14, 2014 entered into by our Company, Driven Goal, Victor Keen, ICBC International Securities Limited and MSPEA, and a charging supplement to deed of second share charge dated June 3, 2014 entered into by the same parties, pursuant to which 2,371.5 and 1,197,987,628.5 ordinary shares in our Company, respectively, were charged by Driven Goal as security to ICBC International Securities Limited;
- (j) Deed of share charge dated March 21, 2012 entered into by our Company and Driven Goal in favor of MSPEA (together with the amendment deed to deed of share charge dated May 18, 2012 entered into among the same parties), and a charging supplement to deed of share charge dated June 3, 2014 entered into by our Company and Driven Goal in favor of MSPEA, pursuant to which 23,715 and 11,979,876,285 ordinary shares in our Company, respectively, were charged by Driven Goal as security to MSPEA;
- (k) Deed of share charge dated March 21, 2012 entered into by our Company and Driven Goal in favor of Investec, and a charging supplement to deed of share charge dated June 3, 2014 entered into by our Company and Driven Goal in favor of Investec, pursuant to which 23,203.5 and 11,721,486,796.5 ordinary shares in our Company, respectively, were charged by Driven Goal as security to Investec;
- (l) Deed of share charge dated May 18, 2012 entered into by our Company, Driven Goal, Victor Keen and MSPEA and a charging supplement to deed of share charge dated June 3, 2014 entered into by the same parties, pursuant to which 2,371.5 and 1,197,987,628.5 ordinary shares in our Company, respectively, were charged by Driven Goal as security to Victor Keen;
- (m) Deed of Non-competition; and
- (n) Hong Kong Underwriting Agreement.






2. INTELLECTUAL PROPERTY RIGHTS OF OUR GROUP

(a) Trademarks

(i) Trademarks registered by our Group in the PRC


As of the Latest Practicable Date, we registered the following trademarks in the PRC which we consider to be material to the business of our Group:

<u>No.</u>	<u>Trademark</u>	<u>Registration Number</u>	<u>Owner</u>	<u>Class</u>	<u>Approved Products</u>	<u>Expiry Date</u>
1		1596017	Jinzhou DPF-TH	1	Fluorobenzene; chlorine bromine fluorobenzene; 4-Bromofluorobenzene (“BFB”); fluoride; antioxidant; chemical preservative; oil dispersant; catalyst; rubber preservative	July 6, 2021
2		1640162	Jinzhou DPF-TH	1	Lubricant; lubricating oil	September 27, 2021
3		4212585	Jinzhou DPF-TH	1	Chemical additive for engine fuel; chemical additive for automobile fuel; oil dispersant; rubber preservative; antioxidant; fluoride; fluorobenzene; chlorine bromine fluorobenzene; BFB; polyether	August 6, 2017
4		7254412	Jinzhou DPF-TH	1	Oil dispersant; antioxidant; emulsifier; chemical additive for oil; fabric stain-resistant chemical; surface active agent; chemical additive for engine fuel; fluorocarbon alcohol	August 27, 2020
5		7254413	Jinzhou DPF-TH	1	Oil dispersant; antioxidant; emulsifier; chemical additive for oil; fabric stain-resistant chemical; surface active agent; chemical additive for engine fuel; fluorocarbon alcohol	August 27, 2020
6		7254414	Jinzhou DPF-TH	1	Oil dispersant; antioxidant; emulsifier; chemical additive for oil; fabric stain-resistant chemical; surface active agent; chemical additive for engine fuel; fluorocarbon alcohol	August 27, 2020
7		7254415	Jinzhou DPF-TH	1	Oil dispersant; antioxidant; emulsifier; chemical additive for oil; fabric stain-resistant chemical; surface active agent; chemical additive for engine fuel; fluorocarbon alcohol	August 27, 2020

No.	Trademark	Registration Number	Owner	Class	Approved Products	Expiry Date
8		7254416	Jinzhou DPF-TH	1	Oil dispersant; antioxidant; emulsifier; chemical additive for oil; fabric stain-resistant chemical; surface active agent; chemical additive for engine fuel; fluorocarbon alcohol	August 27, 2020
9		7254417	Jinzhou DPF-TH	1	Surface active agent; fluorocarbon alcohol	October 6, 2020
10		9807795	Jinzhou DPF-TH	1	Surface active agent; fluorocarbon alcohol	October 6, 2022
11		9807796	Jinzhou DPF-TH	1	Fluoride; fluorocarbon alcohol; oil dispersant; emulsifier; chemical additive for oil; chemical additive for automobile fuel	January 6, 2023
12		9807797	Jinzhou DPF-TH	1	Fluoride; surface active agent; fluorocarbon alcohol; oil dispersant; emulsifier; chemical additive for oil; fabric stain-resistant chemical; chemical additive for automobile fuel; fabric waterproof chemical; chemical preservative	March 13, 2023

(ii) Trademark applied by our Group in Hong Kong

As of the Latest Practicable Date, we applied for the following trademark in Hong Kong:

No	Trademark	Application Number	Applicant	Class	Specification	Application Date
1		302844432	Jinzhou DPF-TH	01	Surfactants; fluorocarbon alcohol	December 20, 2013

(b) Patents

(i) Patents registered by our Group in the PRC

As of the Latest Practicable Date, we registered the following patents which we consider to be material to the business of our Group in the PRC:

No.	Owner	Patent number	Patent name	Announcement date
1	Jinzhou DPF-TH	ZL2010 1 0604955.X	A production process of silicon fluoride surface active agent	October 10, 2012
2	Jinzhou DPF-TH	ZL2010 1 0607070.5	A synthetic method of perfluoroalkyl polyoxyethylene phosphate surface active agent containing fluorine	September 12, 2012

No.	Owner	Patent number	Patent name	Announcement date
3	Jinzhou DPF-TH	ZL2010 1 0607067.3	A synthetic method of hydrofluoroethers	April 10, 2013
4	Jinzhou DPF-TH	ZL2011 1 0000527.0	A production process of fluorinated lubricating additive	July 31, 2013
5	Jinzhou DPF-TH	ZL2011 1 0031523.9	A production process of fluorinated latex paint	January 30, 2013
6	Jinzhou DPF-TH	ZL2011 1 0031525.8	A synthetic method of halogenated alkane	July 31, 2013
7	Jinzhou DPF-TH	ZL2011 1 0031522.4	A production process of fluorinated acrylate emulsion	January 9, 2013
8	Jinzhou DPF-TH	ZL2011 1 0031524.3	A production process of fluorine resin	July 17, 2013
9	Jinzhou DPF-TH	ZL2011 1 0131646.X	A production process and the application of single component of perfluoroalkyl ethyl acrylate modified acrylic resin	April 17, 2013
10	Jinzhou DPF-TH	ZL2011 1 0131605.0	A production process and the application of hydroxyl acrylic acid resin	April 17, 2013
11	Jinzhou DPF-TH	ZL2011 1 0131621.X	Cross-linked fluorosilicone acrylic acid resin and its production process	May 8, 2013
12	Jinzhou DPF-TH	ZL2011 1 0172978.2	A production process of high alkaline calcium alkyl salicylate detergent	June 5, 2013
13	Jinzhou DPF-TH	ZL2010 1 0604950.7	A production process of fluorinated lubricating oil	August 21, 2013
14	Jinzhou DPF-TH	ZL2010 1 0604951.1	A fluorinated lubricating oil	November 20, 2013
15	Jinzhou DPF-TH	ZL2010 2 0674008.3	Automatic water supply system for UV weather-resistant aging test chamber	June 29, 2011
16	Jinzhou DPF-TH	ZL200810011922.7	Long-chain (C ¹⁸ -C ²⁶) benzene sulfonic acid and its production process	May 9, 2012
17	Jinzhou DPF-TH	ZL200810011923.1	A production process of high alkaline (TBN400) synthetic calcium sulfonate	April 27, 2011
18	Jinzhou DPF-TH	ZL200810011924.6	A production process of high alkaline (TBN300) synthetic calcium sulfonate	May 8, 2013
19	Jinzhou DPF-TH	ZL200810011926.5	High alkaline (TBN300) sulphurized calcium alkylphenate and its production process	May 9, 2012
20	Jinzhou DPF-TH	ZL200810011927.X	High alkaline (TBN400) sulphurized calcium alkylphenate and its production process	August 1, 2012
21	FHT	ZL201210107795.7	A production process of perfluoroalkyl ethyl bromide	March 5, 2014
22	FHT	ZL201210107845.1	A production process of perfluoroalkyl ethyl alcohol	March 5, 2014
23	FHT	ZL201210107826.9	A production process of aromatic hydrofluoroethers	April 4, 2014
24	FHT	ZL201210107834.3	A production process of fluorinated gloss paint	April 16, 2014
25	FHT	ZL201210107831.X	A production process of perfluoroalkyl iodide using composite catalyst	April 17, 2014

(ii) Patents applied by our Group in the PRC

As of the Latest Practicable Date, we have applied for the following patents which we consider to be material to the business of our Group in the PRC:

No.	Owner	Application number	Patent name	Application acceptance date
1	FHT	201210107835.8	A production process of perfluoroalkyl alkane	April 13, 2012
2	FHT	201210107833.9	Perfluoroalkyl hexyl ethyl-vinyl-dimethoxysilane, its production process and application	April 13, 2012
3	FHT	201210107842.8	A production process of perfluoroalkanes	April 13, 2012
4	FHT	201210107810.8	A production process of fluorinated fingerprint-resistant agent	April 13, 2012
5	Jinzhou DPF-TH	201210515951.3	A synthetic method of compound tert-butylphenol	December 6, 2012

(c) Domain names**(i) Domain names registered by our Group in the PRC**

As of the Latest Practicable Date, the following domain names were registered and principally used by our Group in its business operations:

No	Domain Name	Registrant	Place of Registration	Date of Registration	Expiry Date
1	htflou.cn	FHT	PRC	April 17, 2012	April 17, 2021
2	htflou.com.cn	FHT	PRC	April 17, 2012	April 17, 2021

(ii) Domain names licensed to use by our Group in the PRC

As of the Latest Practicable Date, we were licensed to use the following domain names which we consider to be material to the business of our Group in the PRC:

No	Domain Name	Registrant	Licensee	License Expiry Date
1	tianhechem.cn	Liaoning Tianhe	Jinzhou DPF-TH	December 31, 2020
2	tianhechem.com.cn	Liaoning Tianhe	Jinzhou DPF-TH	December 31, 2020
3	tianhechem.com	Liaoning Tianhe	Jinzhou DPF-TH	December 31, 2020

Save as disclosed herein, there are no other patents, trademarks or other intellectual or industrial property rights which are material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. DIRECTORS

(a) Disclosure of interest — interests and short positions of the Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Global Offering (but without taking into account any Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the interest or short position of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company, once the Shares are listed are as follows:

(i) Interest in our Company

Name of Director	Nature of Interest	Number and class of Shares	Approximate percentage of shareholding
Wei Qi	Interest of a controlled corporation ⁽³⁾	16,488,072,000(L) 2,196,315,000(L) ⁽¹⁾	64.576% 8.602% ⁽¹⁾
Wei Xuan	Interest of a controlled corporation ⁽⁴⁾	2,196,315,000(L) ⁽¹⁾	8.602% ⁽¹⁾
Joseph Lee	Beneficial interest	18,607,680(L) ⁽²⁾	0.07% ⁽²⁾

Notes:

- (1) Upon the Listing and under certain conditions, if MSPEA proposes to sell or otherwise dispose of any Shares, Gain Elite, Crown Indigo or MegaSky shall have a right of first offer with respect to such Shares. As such, each of Gain Elite, Crown Indigo and MegaSky is considered to have a derivative interest in the 2,196,315,000 Shares to be held by MSPEA immediately after completion of the Global Offering. See “Appendix III – Summary of Terms of Pre-IPO Investments – B. Series A Preferred Shares – Right of First Offer” for further details.
 - (2) Assuming (i) conversion of US dollars into Hong Kong dollars is based on the exchange rate of US\$1 to HK\$7.7532, and (ii) each Share has the value equal to the mid-point of the Offer Price range, being HK\$2.00. Joseph Lee’s entitlement to the Shares are subject to the fulfillment of certain conditions. In addition, our Company has the right to elect to make cash payment to Joseph Lee in lieu of the issuance of Shares (in part or in whole).
 - (3) Wei Qi directly holds the entire issued share capital of Elite Choice (which holds 76.20% of the total issued share capital of Gain Elite) and therefore, is deemed to be interested in the same number of Shares in which Elite Choice is interested.
 - (4) Wei Xuan directly holds the entire issued share capital of MegaSky and therefore, is deemed to be interested in the same number of Shares in which MegaSky is interested.
- (L) denotes long position

(ii) Interest in associated corporation

<u>Name of Director</u>	<u>Name of associated corporation</u>	<u>Number of shares</u>	<u>Percentage Shareholding</u>
Wei Qi	Driven Goal	3,485,920(L) ⁽¹⁾	70.45% ⁽¹⁾
Wei Qi	Gain Elite	762(L) ⁽²⁾	76.20% ⁽²⁾
Wei Qi	Elite Choice	1(L)	100%
Wei Xuan	Driven Goal	712,500(L) ⁽³⁾	14.40% ⁽³⁾
Wei Xuan	Gain Elite	238(L) ⁽⁴⁾	23.80% ⁽⁴⁾
Wei Xuan	MegaSky	1,000(L)	100%
Wei Xuan	Grace Harvest	1(L)	100%

Notes:

- (1) through his controlling interests in Gain Elite.
- (2) through his controlling interests in Elite Choice.
- (3) through his controlling interests in MegaSky.
- (4) through his controlling interests in Grace Harvest.
- (L) denotes long position

(b) Particulars of service contracts

Each of the executive Directors has entered into a service contract with our Company up to a term of three years commencing from the Listing Date, which may be terminated in accordance with the terms of the service contracts.

The non-executive Director has signed a letter of appointment with our Company up to a term of one year commencing from the Listing Date, which may be terminated in accordance with the terms of the letter of appointment.

Each of the independent non-executive Directors has signed a letter of appointment with our Company up to a term of two years commencing from the Listing Date, which may be terminated in accordance with the terms of the letter of appointment.

(c) Directors' remuneration

The aggregate amount of fees, salaries, contributions to pension scheme, discretionary bonuses, housing and other allowances and other benefits in kind granted to the Directors in respect of each of the three years ended December 31, 2011, 2012 and 2013 were approximately RMB276,000, RMB285,000 and RMB286,000, respectively.

Under the arrangements in force at the date of this prospectus, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2014, is expected to be approximately RMB12,000,000 in aggregate.

None of the Directors or any past Directors or the five highest paid individuals of any members of our Group has been paid any sum of money for the three years ended December 31, 2013 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for the three years ended December 31, 2013.

2. SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no exercise of any option under the Share Option Scheme), the following persons (other than the Directors and chief executives of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<u>Name of Shareholder</u>	<u>Name of interest</u>	<u>Number of Shares</u>	<u>Percentage of shareholding</u>
Driven Goal	Beneficial owner	16,488,072,000(L)	64.576%
Gain Elite ⁽¹⁾	Interest of a controlled corporation	16,488,072,000(L)	64.576%
	Derivative interest	2,196,315,000(L) ⁽⁴⁾	8.602% ⁽⁴⁾
Elite Choice ⁽²⁾	Interest of a controlled corporation	16,488,072,000(L)	64.576%
	Derivative interest	2,196,315,000(L) ⁽⁴⁾	8.602% ⁽⁴⁾
Tian Xiaoping ⁽³⁾	Interest of spouse	16,488,072,000(L)	64.576%
MegaSky	Derivative interest	2,196,315,000(L) ⁽⁴⁾	8.602% ⁽⁴⁾
Li Min ⁽⁵⁾	Interest of spouse	2,196,315,000(L) ⁽⁴⁾	8.602% ⁽⁴⁾
Crown Indigo	Derivative interest	2,196,315,000(L) ⁽⁴⁾	8.602% ⁽⁴⁾
Wei Xiao ⁽⁶⁾	Interest of a controlled corporation	2,196,315,000(L) ⁽⁴⁾	8.602% ⁽⁴⁾
MSPEA	Beneficial owner	2,196,315,000(L)	8.602%
Investec	Beneficial owner	1,532,017,000(L)	6.000%
Investec plc ⁽⁷⁾	Interest of a controlled corporation	1,532,017,000(L)	6.000%

Notes:

(L) denotes long position

- (1) Gain Elite will hold 70.45% of the total issued share capital of Driven Goal upon the Listing. Accordingly, Gain Elite is deemed to have interest in the 16,488,072,000 Shares to be held by Driven Goal immediately after completion of the Global Offering.
- (2) Elite Choice directly holds 76.20% of the total issued share capital of Gain Elite and therefore, is deemed to be interested in a total of 16,488,072,000 Shares to be held by Driven Goal immediately after completion of the Global Offering.
- (3) Tian Xiaoping is the spouse of Wei Qi, who directly holds the entire issued share capital of Elite Choice and therefore, is deemed to be interested in a total of 16,488,072,000 Shares to be held by Driven Goal immediately after completion of the Global Offering. Under the SFO, Tian Xiaoping is deemed to be interested in the same number of Shares in which her spouse is interested.
- (4) Upon the Listing and under certain conditions, if MSPEA proposes to sell or otherwise dispose of any Shares, Gain Elite, Crown Indigo or MegaSky shall have a right of first offer with respect to such Shares. As such, each of Gain Elite, Crown Indigo and MegaSky is considered to have a derivative interest in the 2,196,315,000 Shares to be held by MSPEA immediately after completion of the Global Offering. See "Appendix III – Summary of Terms of Pre-IPO Investments – B. Series A Preferred Shares – Right of First Offer" for further details.
- (5) Li Min is the spouse of Wei Xuan. Under the SFO, Li Min is deemed to be interested in the same number of Shares in which her spouse is interested.
- (6) Wei Xiao directly holds the entire issued share capital of Crown Indigo and therefore, is deemed to be interested in the same number of Shares in which Crown Indigo is interested.
- (7) Investec is owned by Investec 1 Limited and Investec Holding Company (Nominees) Limited, and is ultimately controlled by Investec plc. Therefore, Investec plc is deemed to be interested in the Shares to be held by Investec after completion of the Global Offering.

3. AGENCY FEES OR COMMISSIONS RECEIVED

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

4. DISCLAIMERS

Save as disclosed herein:

- (a) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to

our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;

- (b) none of our Directors has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital (together with particular, if any options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any member of our Group; and
- (f) none of our Directors, their respective associates (as defined under the Listing Rules) or shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of the sole Shareholder of our Company passed on May 22, 2014. The Board has been authorized to determine the grant of an option (“**Option**”) to subscribe for Shares under, and pursuant to the terms of, the Share Option Scheme and to determine the grantees, number of Options to be granted to each grantee and the terms and conditions of such grants pursuant to the terms of the Share Option Scheme. The terms of the Share Option Scheme comply with the provisions of Chapter 17 of the Listing Rules.

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to recognize and acknowledge the contributions by the Proposed Grantee (as defined in sub-paragraph (b) below) to our Company and the subsidiaries or invested entity and associated companies of our Company. By providing them with the opportunity to acquire equity interests in our Company, the Share Option Scheme aims to achieve the following objectives:

- (i) attract skilled and experienced personnel, to incentivize them to remain with our Company or its subsidiaries or any entity in which any member of the Group holds any equity

interest (“**invested entity**”) (as the case may be) and to give effect to our Company’s customer-focused corporate culture, and to motivate them to think as Shareholders and strive for the future development and expansion of our Company and its subsidiaries or invested entity; and

- (ii) attract and retain or otherwise maintain on-going business relationships with suppliers and customers whose contributions are or will be beneficial to the long-term growth of our Company.

(b) **Who may join**

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to the following persons (collectively, “**Proposed Grantee**”):

- (i) employee (whether full time or part time, and for the purposes of the Share Option Scheme also includes any executive Director, non-executive (including independent non-executive) Director) of our Company or any of its subsidiaries or invested entity (collectively, “**Employee**”);
- (ii) any advisor, consultant, supplier, customer or agent to our Company or any of its subsidiaries or invested entity provided that (i) such advisor, consultant, supplier, customer or agent provides bona fide services to or conduct business with our Company or any of its subsidiaries or invested entity, (ii) the services provided by or business with the advisor, consultant, supplier, customer or agent are not in connection with the offer or sale of securities in a capital-raising transaction of our Company and (iii) such advisor, consultant, supplier, customer or agent, or the services provided or the business conducted, do not directly or indirectly make a market for our Company’s securities (collectively, “**third party contributor**”),

provided that no prospectus is required to be issued in connection with such grant under the Companies Ordinance or Companies (Winding Up and Miscellaneous Provisions) Ordinance or any other applicable laws. The Board may in its absolute discretion specify such conditions (if any) as it thinks fit when making such offer to the Proposed Grantee, including, without limitation and notwithstanding sub-paragraph (i), as to performance criteria to be satisfied by the Proposed Grantee and/or our Company before an Option can be exercised.

(c) **Maximum number of Shares in respect of which Options may be granted**

The total number of Shares which may be issued upon exercise of all Options that may be granted under the Share Option Scheme and any other option scheme involving the issue or grant of options over Shares or other securities by our Company or any of its subsidiaries will not in aggregate exceed 10% of the aggregate nominal amount of the share capital of our Company as of the date of listing of the shares on the Hong Kong Stock Exchange, being 2,553,300,000 Shares, excluding for this purpose options lapsed in accordance with the terms of the Share Option Scheme, unless our Company obtains the approval of its Shareholders in accordance with the following:

- (i) Our Company may seek the approval of its Shareholders in general meeting to refresh the 10% limit such that the total number of Shares which may be issued upon exercise of all Options that may be granted under the Share Option Scheme and any other option scheme involving the issue or grant of options over Shares or other securities by our Company

under the limit as refreshed will not exceed 10% of the aggregate nominal amount of the share capital of our Company in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme or any other option scheme, including options outstanding, cancelled or lapsed in accordance with the relevant option scheme or exercised options, will not be counted for the purpose of calculating the limit to be refreshed;

- (ii) Our Company may seek the approval of its Shareholders in general meeting to grant Options which will result in the number of Shares in respect of all the Options granted under the Share Option Scheme and all the options granted under any other option scheme exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue, provided that such Options are granted only to Employee and third party contributors specifically identified by our Company before the approval of its Shareholders is sought;
- (iii) the maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other option scheme will not exceed 30% of the issued share capital of our Company from time to time.

The maximum number of Shares in respect of which options may be granted will be adjusted, in such manner as the auditors (or an independent financial adviser appointed by the Board) of our Company will certify in writing to the Board to be fair and reasonable, subject to sub-paragraph (q) below, but will not in any event exceed the limits imposed by the Listing Rules.

(d) **Maximum entitlement of each individual**

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital of our Company from time to time. Any further grant of options in excess of this 1% limit will be subject to:

- (i) the issue of a circular by our Company containing the identity of the Proposed Grantee, the numbers of and terms of the Options to be granted (and Options previously granted to such Grantee), the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time, and (i) at any time before July 1, 2014, with such Proposed Grantee and his associates abstaining from voting, or (ii) at any time on or after July 1, 2014, with such Proposed Grantee and his close associates (as defined in the Listing Rules to be effective on July 1, 2014) (or his associates if the Proposed Grantee is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of Options to be granted to such Proposed Grantee must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the Options to such Proposed Grantee will be taken as the date of grant for the purpose of calculating the exercise price of the Shares. The Board will forward to such Proposed Grantee an offer document in such form as the Board may from time to time determine.

(e) **Grant of Options to connected persons**

The independent non-executive Directors of our Company (excluding any independent non-executive Director of our Company who is a Proposed Grantee of the Option(s)) will be required to approve each grant of Options to a Director, chief executive or Substantial Shareholder or any of their respective associates.

If a grant of Options to a Substantial Shareholder or an independent non-executive Director of our Company, or their respective associates, will result in the total number of Shares issued and to be issued upon exercise of Options granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the issued share capital of our Company from time to time; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheet at the date of each grant, in excess of HK\$5 million,

such further grant of Options will be required to be approved by the Shareholders of our Company in general meeting. Our Company will send a circular to its Shareholders containing such information as is required under Rule 17.04 of the Listing Rules. (At any time before July 1, 2014) all connected persons of our Company or (at any time on or after July 1, 2014) the Proposed Grantee, his associates and all core connected persons (as defined in the Listing Rules to be effective on July 1, 2014) of the Company, will be required to abstain from voting at such general meeting, and any vote taken at such meeting must be taken on a poll.

The circular to be issued by our Company to the Shareholders pursuant to the above sub-clause will contain the following information:

- (a) the details of the number and terms (including the exercise price) of the Options to be granted to each selected Proposed Grantee, which must be fixed before the Shareholders' meeting and the date of the Board meeting for proposing such further grant will be taken as the date of grant for the purpose of calculating the exercise price of such Options;
- (b) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the Grantee) to the independent Shareholders as to voting;
- (c) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (d) the information required under Rule 2.17 of the Listing Rules.

(f) **Acceptance of an offer of Options**

An offer of grant of an Option will be made to any Proposed Grantee in writing (each, an "Offer") in such form as the Board may from time to time determine, specifying (i) the number of Shares comprised in the Option, (ii) the exercise price, (iii) the option period during which the Option may be exercised, (iv) the date by which the Option must be accepted being a date not more than 30 days after the date of the offer, (v) the performance criteria to be satisfied by the Proposed Grantee and/or our Company before an Option can be exercised (if any), (vi) such other terms and conditions of

the offer as may be imposed by the Board as are not inconsistent with the Share Option Scheme, and (vii) requiring the Proposed Grantee, by signing and returning a duplicate of the offer, to accept the Offer and to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. The Offer will be personal to the Proposed Grantee concerned and will not be transferable.

An Option will be deemed to have been granted and accepted and to have taken effect when the duplicate of the offer duly signed by the Proposed Grantee (the “**Grantee**”) together with a payment to our Company, as the case may be, of HK\$1.00 (or its equivalent in the local currency of any jurisdiction where our Company and/or its subsidiaries, as the case may be, operate) by way of consideration for the grant thereof is received by our Company within the time period specified in the Offer. Such remittance will in no circumstances be refundable and will not be deemed to be a part payment of the exercise price.

Any offer may be accepted or deemed to have been accepted in part provided that it is accepted in respect of a board lot or an integral multiple thereof and is clearly stated in the duplicate of the offer comprising the acceptance of the offer duly signed by the Proposed Grantee. To the extent that the offer is not accepted within 30 days from the date upon which it is made in the manner indicated in the aforesaid, it will be deemed to have been irrevocably declined.

Upon an Offer being accepted by a Proposed Grantee in whole or in part in accordance with the sub-paragraphs aforesaid, an Option in respect of the number of Shares in respect of which the Offer was so accepted will be deemed to have been granted by our Company to such Grantee on the date, which will be a business day, on which the Option is offered to the Proposed Grantee (“**Option Offer Date**”).

(g) **Exercise price**

The exercise price in respect of any Option will be such price as determined by the Board and notified to any Grantee (subject to any adjustment made pursuant to the sub-paragraph (q)) and will be the highest of:

- (i) the closing price of the Shares as stated in the Hong Kong Stock Exchange’s daily quotations sheet for a board lot on the Option Offer Date;
- (ii) the average closing price of the Shares as stated in the Hong Kong Stock Exchange’s daily quotations sheets for a board lot for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of the Share.

(h) **Duration of the Share Option Scheme**

Subject to sub-paragraph (s), the Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which the conditions set out in sub-paragraph (u) becomes unconditional, which is expected to be the Listing Date, after which period no further Options will be granted under the Share Option Scheme, but the provisions of the Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

(i) **Time of vesting and exercise of Options**

Subject to sub-paragraph (b), and unless otherwise determined by the Board and stated in the Offer to a Grantee, no performance criteria are to be satisfied by a Grantee and/or our Company before the exercise of an Option granted to him.

A Grantee may exercise his Option in whole or in part (but, if in part, only in respect of a board lot or any integral multiple thereof) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares to be subscribed. Each such notice must be accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate from the auditors (or an independent financial adviser appointed by the Board) pursuant to sub-paragraph (q), our Company will allot and issue the relevant Shares to the Grantee credited as fully paid and issue to the Grantee a share certificate in respect of the Shares so allotted.

Subject to any early vesting of Options pursuant to sub-paragraphs (m)-(o), all Options granted under the Share Option Scheme will be subject to a vesting period of up to ten years to be determined with respect to each Grantee by the Board at the time of grant of the relevant Option and stated in the Offer to a Grantee. In the absence of such requirements, a Grantee is not required to hold an Option for any minimum period before the exercise of an Option granted to him.

(j) **Restriction on the time of grant of Options**

The Board will not offer to grant any Option to any Proposed Grantee:

- (i) after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published; or
- (ii) during the period commencing one month immediately preceding the earlier of:
 - (a) the date of the Board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period; and
 - (b) the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period,

and ending on the date of the relevant results announcement.

(k) **Ranking of the Shares**

The Shares to be allotted upon the exercise of an Option will not carry voting rights until completion of the registration of the Grantee as the holder thereof. Subject to the aforesaid and the Articles, Shares allotted and issued on the exercise of Options will rank *pari passu* and will have the same voting, dividend, transfer and other rights (including those arising on winding-up) as are attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(l) **Rights are personal to the Grantees**

An Option will be personal to the Grantee and not be assignable. Except for the transmission of an Option on the death of a Grantee to his legal personal representatives and nomination of an entity wholly owned by a Grantee to hold his Option on his behalf, a Grantee may not sell, transfer, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any Option or enter into any agreement to do any of the foregoing. Any breach of the foregoing by the Grantee will entitle our Company to cancel any Option granted to such Grantee (to the extent not already exercised).

(m) **Rights on a general offer**

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror (as defined in the Takeovers Code)) our Company will use its best endeavors to procure that such offer is extended to all the Grantees.

If such offer, having been approved or conducted in accordance with applicable laws and regulatory requirements becomes effective, or becomes or is declared unconditional, the Grantee will be entitled to exercise the Option up to his entitlement (to the extent not already exercised) at any time thereafter and up to the close of such offer (or relevant revised offer) or the record date for entitlements under scheme of arrangement, as the case may be. Subject to the above, the Option will lapse automatically on the date which such offer (or the relevant revised offer) closed or the relevant record date for entitlements under the scheme of arrangement, as the case may be.

(n) **Rights on winding up**

In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving the voluntary winding up of our Company, our Company will on the same date as or soon after it dispatches such notice to its Shareholders give notice thereof to all Grantees and each Grantee will be entitled to exercise all or any of his Options (to the extent not already exercised) at any time no later than two business days prior to the proposed general meeting of our Company. Our Company will as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the Grantee credited as fully paid.

(o) **Rights on company reconstructions**

If a compromise or arrangement between our Company and its Shareholders or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies, our Company will give notice to all the holders of the Options on the same day as it gives notice of the meeting to its Shareholders or creditors summoning the meeting to consider such a scheme or arrangement and any Grantee will be entitled to exercise the Option up to his entitlement at any time prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement.

The Board will endeavor to procure that the Shares issued as a result of the exercise of Options under this sub-paragraph will for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date and that such Shares will in all respects be subject to such compromise or arrangement.

With effect from the date of such meeting, the rights of all Grantees to exercise their respective Options will forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options will, to the extent that they have not been exercised, lapse and terminate. If for any reason such compromise or arrangement is not approved by the Court the rights of the Grantees to exercise their respective Options will with effect from the date of the making of the order by the Court be restored in full and will become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company.

(p) Lapse of Option

An Option will lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i)* the expiry of the option period;
- (ii)* the expiry of any of the periods referred to in sub-paragraphs (m) to (n);
- (iii)* subject to sub-paragraph (o), the date of the commencement of the winding up of our Company;
- (iv)* the date on which:
 - (a)* where the Grantee is an Employee, the Grantee ceases to be an Employee by reason of the summary termination of his employment on any one or more of the grounds that he has been guilty of misconduct, or has been convicted of any criminal offense involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to summarily terminate his employment at common law or pursuant to any applicable laws or under the Grantee's service contract with our Company or its relevant subsidiary or invested entity; or
 - (b)* where the Grantee is a third party contributor, and the third party contributor is under any contract with our Company or its relevant subsidiary or invested entity, such contract is terminated by reason of breach of contract on the part of the third party contributor; or
 - (c)* where the Grantee is a third party contributor, the Grantee appears either to be unable to pay or have no reasonable prospect to be able to pay debts, or has become insolvent, or has made any arrangement (including a voluntary arrangement) or composition with his creditors generally, or ceases or threatens to cease to carry on his business, or is bankrupted, or has been convicted of any criminal offense involving integrity or honesty, or could no longer make any contribution to the growth and development of the Group by reason of its cessation of its relations with the Group or by any other reason whatsoever,

provided that whether any one or more of the events specified above occur in relation to a Grantee will, in its reasonable opinion, be solely and conclusively determined by the Board;

- (v)* the date on which the Grantee commits a breach of sub-paragraph (l);
- (vi)* twelve months from the date of the death or winding up of the Grantee (if not exercised by his legal personal representative);

- (vii) in cases where the Option is held by a nominee of the Grantee, the date such nominee ceases to be wholly owned by the relevant Grantee; or
- (viii) the date of cessation of an Employee or six months within the date on which a Grantee ceases to be a third party contributor, unless otherwise stipulated in this sub-paragraph.

(q) **Effect of alteration to capital**

In the event of a capitalization issue, rights issue, consolidation or subdivision of Shares or a reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party) while any Option remains exercisable, such corresponding adjustments (if any) will be made to:

- (i) the number or nominal amount of Shares, the subject matter of the Option (insofar as it is unexercised); and/or
- (ii) the aggregate number of Shares subject to outstanding Options; and/or
- (iii) the exercise price of the Options granted (insofar as they are unexercised),

as the auditors (or an independent financial adviser appointed by the Board) will certify in writing to the Board either generally or, if applicable, as regards any particular Grantee, to be in their opinion fair and reasonable, provided that any adjustment will be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such adjustment will remain the same, or as nearly as possible the same as that to which he was entitled before such adjustment, but so that no such adjustment will be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of our Company for which any Grantee would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustments.

If there has been any alteration in the capital structure of our Company as referred to in the aforesaid, our Company will, upon receipt of a notice from the Grantee, inform him of such alteration and will either inform him of the adjustment to be made pursuant to the certificate of the auditors (or an independent financial adviser appointed by the Board) obtained by our Company for such purpose, or if no such certificate has yet been obtained, inform him of such fact and instruct the auditors (or an independent financial adviser appointed by the Board) to issue a certificate in that regard in accordance with the aforesaid.

(r) **Cancellation of Options**

Options granted but not exercised or lapsed may be cancelled with the consent of the relevant Grantee upon approval by a resolution of the Board.

Any Grantee whose Options are cancelled pursuant to the aforesaid may be issued new Options in accordance with the provisions of the Share Option Scheme, provided that unissued Options are available under the Share Option Scheme within the limits specified in sub-paragraph (c).

(s) **Termination of the Share Option Scheme**

The Share Option Scheme will expire automatically on the day immediately preceding the tenth anniversary of the date on which the conditions set out in sub-paragraph (u) becomes unconditional, which is expected to be the Listing Date. Our Company may by resolution in general meeting or the

Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but the provisions of the Share Option Scheme will remain in full force in all other respects. All Options granted prior to such termination will continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

(t) **Alteration of the Share Option Scheme**

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) the definitions of “Employee”, “Proposed Grantee”, “Grantee”, “option period” and “third party contributor” and any provisions of the Share Option Scheme relating to the matters set out in rule 17.03 of the Listing Rules will not be altered to the advantage of Grantees or Proposed Grantees; and
- (ii) any change to the authority of the Board or scheme administrators in relation to any alteration to the terms of the Share Option Scheme will not be made,

except with the prior sanction of a resolution of the Shareholders of our Company in general meeting, provided that no such alteration will operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of the Shareholders of our Company under the Articles of Association for a variation of the rights attached to the Shares.

The amended terms of the Share Option Scheme and/or the Options must continue to comply with the relevant provisions of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules from time to time.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of the Options granted will be subject to the approval of Shareholders save where the alterations take effect automatically under the existing terms of the Share Option Scheme.

The terms of this Share Option Scheme and/or any Options amended pursuant to this sub-paragraph must comply with the applicable requirements of the Listing Rules.

(u) **Conditions of the Share Option Scheme**

The Share Option Scheme will take effect subject to the passing of the necessary resolution to adopt the Share Option Scheme by the Shareholders and the Board and is conditional upon:

- (i) the Listing Committee granting approval of the Listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of Options under the Share Option Scheme on the Hong Kong Stock Exchange; and
- (ii) the commencement of dealings in the Shares on the Hong Kong Stock Exchange.

If any of the above conditions are not satisfied on or before December 31, 2014, the Share Option Scheme will terminate and no person will be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

(v) Administration of the Board

The Share Option Scheme will be subject to the administration of the Board whose decision and interpretation (save as otherwise provided in the Share Option Scheme) will be final and binding on all parties who may be affected thereby.

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As at the Latest Practicable Date, no Option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 2,553,300,000 Shares in total.

E. OTHER INFORMATION**1. LITIGATION**

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

2. JOINT SPONSORS

MSPEA will hold approximately 8.602% of the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering.

MSPEA, being an associate of Morgan Stanley Asia Limited, is regarded as a member of the sponsor group of Morgan Stanley Asia Limited as defined in the Listing Rules. Accordingly, Morgan Stanley Asia Limited does not satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

UBS Securities Hong Kong Limited and Merrill Lynch Far East Limited satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors have made an application on our behalf to the Listing Committee for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme).

We have entered into an engagement agreement with each of the Joint Sponsors, pursuant to which we agreed to pay US\$900,000 to each of the Joint Sponsors to act as the sponsors to our Company in the Global Offering.

3. PRELIMINARY EXPENSES

No preliminary expenses in connection with the incorporation of our Company have been paid or are payable by our Company.

4. NO MATERIAL ADVERSE CHANGE

Saved as disclosed in this prospectus, the Directors confirm that there has been no material adverse change in our Group's financial or trading position since December 31, 2013 (being the date on which our latest financial statements were made up) up to the Latest Practicable Date.

5. PROMOTER

Our Company has no promoter for the purposes of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor is any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

6. COMPLIANCE ADVISOR

Our Company has appointed Cinda International Capital Limited as the compliance advisor upon Listing in compliance with Rule 3A.19 of the Listing Rules.

7. TAXATION OF HOLDERS OF SHARES**(a) Hong Kong**

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Directors have been advised that no material liability for estate duty under the laws of Hong Kong would be likely to fall upon any member of our Group.

(b) BVI

Under the present laws of BVI, there is no stamp duty payable in BVI on transfers of Shares.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the Global Offering accepts responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

8. QUALIFICATION OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

<u>Name</u>	<u>Qualifications</u>
Morgan Stanley Asia Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on future contracts) and type 6 (advising on corporate finance) of the regulated activities under the SFO
UBS Securities Hong Kong Limited	Licensed to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) of the regulated activities under the SFO
Merrill Lynch Far East Limited	Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) of the regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Commerce & Finance Law Offices	PRC legal advisors
Maples and Calder	BVI attorneys-at-law

9. CONSENT OF EXPERTS

Each of the experts named in paragraph 8 of this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

10. INTERESTS OF EXPERTS IN OUR COMPANY

Save as disclosed in this prospectus, none of the persons named in paragraph 8 of this Appendix (a) is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group; and (b) has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

11. BINDING EFFECT

This prospectus will have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. PARTICULARS OF THE SELLING SHAREHOLDERS AND OVER-ALLOTMENT OPTION GRANTORS

Selling Shareholders

Particulars of the Selling Shareholders as at the Latest Practicable Date are set out as follow:

(a)

Name:	Driven Goal Limited
Description:	Corporation
Registered office:	Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands
Number of Sale Shares:	510,000,000

Each of Mr. Wei Qi and Mr. Wei Xuan, being a Director, is interested in such Sale Shares through his indirect interest in Driven Goal.

(b)

Name:	Chen Chieh-Hung
Description:	Individual
Address:	5F-1, No. 286-5, Hsin Ya Road Chien Chen District, Kaohsiung Taiwan, Republic of China
Number of Sale Shares:	264,264,000

Over-allotment Option Grantors

Particulars of the Over-allotment Option Grantors as at the Latest Practicable Date are set out as follow:

(a)

Name:	Driven Goal Limited
Description:	Corporation
Registered office:	Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands
Number of Shares to be sold under the Over-allotment Option:	269,386,300

(b)

Name:	Investec Bank plc
Description:	Corporation
Registered office:	2 Gresham Street, London, EC2V 7QP, United Kingdom
Number of Shares to be sold under the Over-allotment Option:	153,201,700

13. MISCELLANEOUS

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
- (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in our Company or any of our subsidiaries.
- (b) Save as disclosed in this prospectus, there are no founder, management or deferred shares or any debentures in our Company or any of our subsidiaries.
- (c) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.
- (d) The principal register of members of our Company will be maintained in BVI by Maples Fund Services (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by Computershare Hong Kong Investor Services Limited and may not be registered on the principal register of members in BVI. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.
- (e) Save as disclosed in this prospectus, no equity or debt securities of any company within our Group is presently listed on any stock exchange or traded on any trading system nor is any listing or permission to deal being or proposed to be sought.
- (f) Our Directors have been advised that, under the Companies Act, the use of a Chinese name by our Company does not contravene the Companies Act.
- (g) Save as disclosed in this prospectus, our Company has no outstanding convertible debt securities or debentures.
- (h) There is no arrangement under which future dividends are waived or agreed to be waived.
- (i) The Company has not engaged any financial adviser in connection with the Global Offering.

14. BILINGUAL PROSPECTUS

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) Statement of particulars of the Selling Shareholders and Over-allotment Option Grantors;
- (c) copies of the material contracts referred to the section headed “Statutory and General Information — B. Further Information about the Business — 1. Summary of Material Contracts” in Appendix V to this prospectus; and
- (d) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 9. Consent of Experts” in Appendix V to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Clifford Chance, 28th Floor, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the Accountants’ Report and the report on the unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I and II to this prospectus;
- (c) Statement of particulars of the Selling Shareholders and Over-allotment Option Grantors;
- (d) the legal opinions issued by Commerce & Finance Law Offices, our PRC legal adviser, dated June 9, 2014 in respect of certain aspects of our Group and the property interests of our Group;
- (e) the letter of advice prepared by Maples and Calder, our BVI legal adviser, summarizing certain aspects of BVI company law referred to in Appendix IV to this prospectus;
- (f) the material contracts referred to the section headed “Statutory and General Information — B. Further Information about the Business — 1. Summary of Material Contracts” in Appendix V to this prospectus;
- (g) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 9. Consent of Experts” in Appendix V to this prospectus;
- (h) the service contracts and letters of appointment of our Directors;
- (i) the Companies Act; and
- (j) the Share Option Scheme.



天合化工集團有限公司
TIANHE CHEMICALS GROUP LIMITED