

## OUR HISTORY AND REORGANIZATION

### HISTORY

#### Background

Prior to the establishment of our Group, Mr. Sun and Mr. Strutt were both professionals working in the industrial gas industry, employed at BOC Gases, an international gas supply company. Mr. Sun and Mr. Strutt had been long-term friends and business partners through their previous work experience at BOC Gases. Mr. Sun and Mr. Strutt, both having extensive work experience in and knowledge of the industrial gas market, recognized the potential of the growing industrial gas market and the opportunities available to independent domestic industrial gas suppliers in China.

In 2001, Mr. Sun and Mr. Strutt sought suitable funding and appropriate business partners from the industrial sector to assist with and participate in the establishment of an independent industrial gas company in the PRC. Mr. Sun and Mr. Strutt entered into cooperation with the management members (hereafter referred to as the "former Torch management") of an industrial company, Torch Automobile Group Co., Ltd., or Torch, a company established in the PRC and previously listed on the Shenzhen Stock Exchange. These former Torch management members were led by Mr. Nie Xinyong, Mr. Zhao Xiangti and Mr. Yang Yonggang. In 2007, Torch was merged into Weichai Power Co., Ltd., a company currently listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange. Torch was founded in 1961 and was engaged primarily in the manufacture of heavy automobiles, high performance off-road vehicles and auto parts. Although Torch's core business was focused on the automotive industry, Torch also operated and made investments in a number of non-core businesses, including new energy, metal materials, technology, and industrial service sectors. For more information on Torch, please see the section headed "Further Information on Torch" below. Torch invested in Hunan Yingde as it recognized the potential for growth in the industrial gas market in China and the opportunities available to an independent industrial gas supplier.

In October 2001, the following parties entered into a joint venture agreement pursuant to which they jointly invested to establish Hunan Yingde and made the following contributions:

- Baslow Technology Limited, an investment holding company, of which 60% interest was held by Mr. Sun (on behalf of Ms. Li Hongmei, Mr. Sun's mother-in-law) and 20% by Mr. Strutt at the time of incorporation, and which contributed professional knowledge, industry expertise and funding to Hunan Yingde<sup>(1)</sup>;
- Peace & Smooth (Hong Kong) Investment Limited, an investment holding company, of which 60% of the voting power was held by Mr. Deng Jun and 40% of the voting power was held by Mr. Tang Lin at the time of incorporation, and which contributed local knowledge, management expertise and funding to Hunan Yingde<sup>(2)</sup>;
- Beijing Qian Yuan Sheng Da Technology Company Limited, an investment holding company, 100% of the voting power of which was collectively held by Mr. Zhao and Mr. Yang at the time of incorporation, and which contributed local knowledge, management expertise and funding to Hunan Yingde;
- Torch contributed funding to Hunan Yingde<sup>(3)</sup>;

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#### Notes:

<sup>(1)</sup> The remaining 20% interest in Baslow was held by two individual investors who are independent third parties of our Group and who disposed of their respective interests in Baslow to Mr. Strutt in October 2005 and February 2006, respectively. After the disposals, Mr. Strutt was holding 25% and 40% interest in Baslow for himself from October 2005 and February 2006, respectively.

<sup>(2)</sup> Mr. Deng Jun and Mr. Tang Lin were the shareholders of Peace & Smooth upon its incorporation on August 15, 2001. Mr. Deng and Mr. Tang established Peace & Smooth as one of the investment vehicles for the former Torch management led by Mr. Nie Xinyong, Mr. Zhao and Mr. Yang with financial contributions from the 31 members of the former Torch management team, to invest in Hunan Yingde. Mr. Deng and Mr. Tang are not part of the 31 members of the former Torch management, and ceased to be shareholders of Peace & Smooth on May 24, 2005.

<sup>(3)</sup> Torch (together with Huikeying) were financial investors in Hunan Yingde and were responsible for contributing part of the capital proportional to their respective equity interests. They also participated in the management and operations of Hunan Yingde and its group of companies but had no control over the board or management of Hunan Yingde.

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- Beijing Huikeying Hi-tech Co., Ltd. (北京匯科盈高新技術有限公司), a company owned as to 80% by Torch, contributed funding to Hunan Yingde; and
- Shanghai Tongyue Trading Co., Ltd. (上海同岳科貿有限公司), or Tongyue, an investment holding company, contributed funding to Hunan Yingde.

At the time of establishment, the registered capital of Hunan Yingde was RMB66,800,000 to which Baslow contributed an amount equivalent to RMB13,360,000; Peace & Smooth contributed an amount of RMB7,680,000; QYSD contributed an amount of RMB7,800,000; Torch contributed an amount of RMB18,800,000; Huikeying contributed an amount of RMB13,600,000 and Tongyue contributed an amount of RMB5,560,000, accounting for 20.00%, 11.50%, 11.68%, 28.14%, 20.36% and 8.32%, respectively, of Hunan Yingde's registered capital.

An agreement on voting arrangements in Hunan Yingde was entered into on December 18, 2001 among Baslow, Peace & Smooth, QYSD and Tongyue to the effect that Baslow, Peace & Smooth, QYSD and Tongyue shall vote in the same manner with respect to decisions in connection with Hunan Yingde. In July 2004, QYSD purchased an 8.32% equity interest in Hunan Yingde from Tongyue after which QYSD owned a 20% equity interest in Hunan Yingde. Notwithstanding the changes in shareholders that occurred in July 2004, as the same group of shareholders remained in control of Hunan Yingde, the then shareholders were of the view that they would continue to honor the previous voting agreement and it was not necessary for them to enter into new or supplemental voting agreements.

A total of 31 members of the former Torch management team, led by Mr. Nie Xinyong, Mr. Zhao and Mr. Yang, jointly provided the financial resources to establish Hunan Yingde together with Baslow and Torch. Peace & Smooth, QYSD (which has been subsequently replaced by Rongton) and Tongyue were investment companies jointly established by the representatives of the same 31 members of the former Torch management team. Please refer to the paragraph headed "Arrangements among shareholders of Peace & Smooth, Rongton and the 31 members of the former Torch management" below for further details on the arrangements. There have been no changes in the composition of the 31 members of the former Torch management since January 1, 2007.

Other than as disclosed in this document, there was no other relationship between Torch, Peace & Smooth, QYSD, Tongyue and our Group when Hunan Yingde was established in October 2001.

Since the establishment of Hunan Yingde in October 2001, Mr. Sun and Mr. Strutt, with assistance from Mr. Zhao and Mr. Yang, were and continue to be our Group's core management team, who collectively exercise substantial control over and influence on the management of the business and operations of our Company and our subsidiaries both at the board and management level.

### Further information on Torch

Mr. Nie Xinyong served as the chairman (until November 2004) and the president (until April 2007) of Torch. In 2006, the CSRC imposed public sanctions and fines on Torch for overstating profits for the financial years of 1997, 1998 and 1999, overstating the amount of proceeds from share placement used on certain projects in 2003, failure to disclose certain guarantees provided to its related companies and failure to account for the losses of an indirect non-wholly owned subsidiary in 2003. The CSRC imposed a fine of RMB600,000 on Torch. The CSRC also issued public sanctions and imposed fines on three of Torch's directors (including Mr. Nie Xinyong) in relation to the same matters. Mr. Nie Xinyong was fined RMB100,000. In 2004, the Shenzhen Stock Exchange issued a public sanction of Mr. Nie Xinyong and another director of Torch for Torch's failure to make disclosures as required under the Shenzhen Stock Exchange Listing Rules in respect of a connected transaction involving the provision of financial assistance to a connected person.

Mr. Nie Xinyong was previously a non-executive director of the PRC subsidiaries of our Company. Mr. Nie Xinyong was involved in the overall strategic development and customer relationship-building

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for our Group. His roles were of a non-executive nature and he was not involved in the day-to-day management of our Group. Mr. Nie Xinyong resigned from all his directorships and management positions in our Group on September 10, 2008.

The current members of our board of directors and senior management had the following past relationships with Torch:

- Mr. Sun was appointed as a vice president with Torch from March 2004 to January 2005 as a result of Torch's investment in Hunan Yingde, and by virtue of Mr. Sun's position as chief executive officer of Hunan Yingde. We have received a written confirmation from Mr. Sun confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.
- Mr. Zhao was a supervisor, a non-management position, of Torch from May 2000 to April 2007. From September 2002 to June 2006, Mr. Zhao was a director and vice president of Shaanxi Heavy Duty Automobile Co., Ltd., a subsidiary of Torch. From June 2000 to September 2006, Mr. Zhao was the chief executive officer and director of Huikeying. Mr. Zhao's role was limited to his executive positions at the subsidiary level of the Torch group and the non-executive supervisor role at Torch, while he held no management position at Torch nor any of its other subsidiaries. We have received a written confirmation from Mr. Zhao confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.
- Mr. Yang was a vice president and director of Huikeying from June 2000 to September 2006. Other than this, Mr. Yang held no management position at Torch nor any of its other subsidiaries. Mr. Yang's role was limited to his executive positions at the subsidiary level of the Torch group, while he held no management position at the holding group level of Torch. We have received a written confirmation from Mr. Yang confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.
- Mr. Xu Zhao was the chief financial officer of Shaanxi Heavy Duty Automobile Co., Ltd., a subsidiary of Torch, from September 2002 to November 2006. He did not hold any executive or management role at the Torch holding company level. Mr. Xu's role was limited to his executive positions at the subsidiary level of the Torch group. We have received a written confirmation from Mr. Xu confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.
- Mr. Chen Yan was the deputy director of Torch's international division from May 2004 to June 2006. Mr. Chen's responsibilities involved evaluating and overseeing any offshore merger and acquisition opportunities and projects for Torch. Mr. Chen confirmed to us that his management responsibilities at Torch were of a limited scope, and that he had no connection with the non-compliance matters committed by the Torch group. We have received a written confirmation from Mr. Chen confirming that he was not personally involved in the non-compliance matters of Torch or its subsidiaries and was neither sanctioned nor penalized by the Shenzhen Stock Exchange, the CSRC or any other relevant authority in respect of these matters.

Save as disclosed above, none of the current members of our board of directors and senior management has had any connections with Torch or any of its subsidiaries. None of the current members of our board of directors and senior management has ever been a director of Torch. None of the above persons was sanctioned or penalized by the Shenzhen Stock Exchange or the CSRC.

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We have implemented a number of internal control measures to ensure effective management of our Group's business and operations and compliance with applicable laws and regulations. Please see the section headed "Business — Our internal control measures."

### Commencement of Our Business

We commenced our business with the establishment of Hunan Yingde in Hunan province, PRC, in October 2001. In May 2003, our first industrial gas production facility, located in Loudi in Hunan province, commenced operation. Since May 2003, we have grown to become the largest domestic independent supplier of on-site industrial gases in the PRC by revenue in 2008 with 20 production facilities in operation and another 12 industrial gas production facilities under development as at the Latest Practicable Date. Upon completion of these production facilities, we expect to increase our total gas supply capacity to approximately 848,800 Nm<sup>3</sup>/hr, in terms of installed oxygen capacity, representing a 135.1% increase from the capacity of 361,000 Nm<sup>3</sup>/hr at the end of 2008. Our industrial gas production facilities (including those currently under development) are located in eight provinces, one autonomous region and one municipality (Hunan, Jiangsu, Guangdong, Shaanxi, Shandong, Hebei, Shanxi, Guizhou, Inner Mongolia and Tianjin), all of which are expected to have a growing demand for industrial gases.

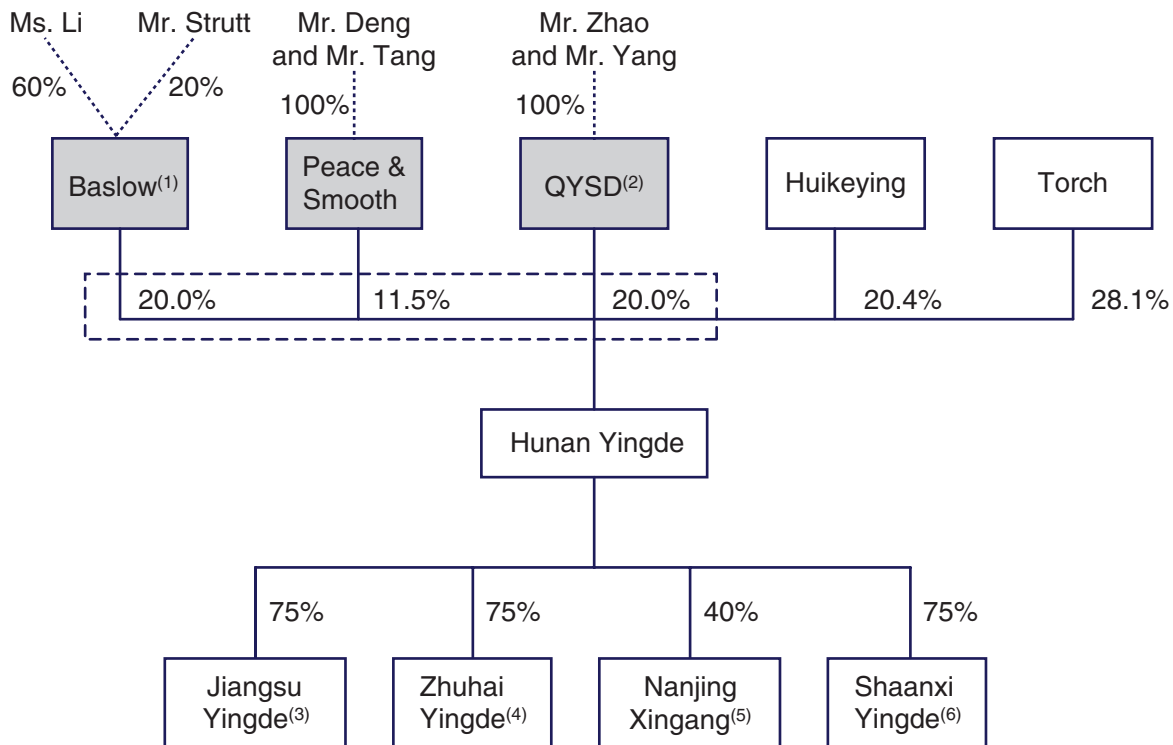
The following table provides certain information with respect to our subsidiaries with production facilities currently in operation:

<u>Name</u>	<u>Establishment date</u>	<u>Number of production facilities in operation as at the Latest Practicable Date</u>
Hunan Yingde	October 2001	One
Jiangsu Yingde	April 2003	One
Zhuhai Yingde	April 2003	Two
Nanjing Xingang	June 2003	One
Shaanxi Yingde	June 2003	Three
Tianjin Yingde	September 2004	One
Rizhao Yingde	October 2006	Three
Zibo Yingde	November 2006	One
Hebei Yingde	December 2006	Two
Huai'an Yingda	January 2007	One
Laiwu Yingde	January 2007	One
Zhuzhou Yingde	March 2007	One
Hengyang Yingde	December 2008	Two

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**Shareholding structure as at January 1, 2005**

On January 1, 2005, the shareholding structure of our Group was as follows:



*Notes:*

- (1) Ms. Li and Mr. Strutt collectively held 80% beneficial interest in Baslow since January 1, 2005. Initially, Mr. Sun, the son-in-law of Ms. Li, acted as her trustee and held the interest in Baslow on her behalf. As directed by Ms. Li, Mr. Sun was replaced by Mr. Strutt and another individual (who is an independent third party of our Group) as her trustees in August 2004. Subsequently, in February 2006, that individual ceased to be a trustee of Ms. Li, and Mr. Strutt became the sole trustee of Ms. Li. Ms. Li and Mr. Strutt entered into a trust agreement dated February 20, 2006 to formalize their entrustment arrangement. Our British Virgin Islands legal advisors, Conyers Dill & Pearman, are of the opinion that the trust agreement between Ms. Li and Mr. Strutt is legal, valid, binding and enforceable under the laws of the British Virgin Islands.
- (2) Mr. Zhao and Mr. Yang collectively held 100% interest in QYSD and were the only two directors as at January 1, 2005.
- (3) The other shareholders of Jiangsu Yingde were Baslow with a shareholding of 5% and Seabright with a shareholding of 20%. Please refer to the section headed "Our History and Reorganization – History – Background" in this document for further details on the connection between Seabright, QYSD and Peace & Smooth.
- (4) The other shareholders of Zhuhai Yingde were Baslow with a shareholding of 5% and Seabright with a shareholding of 20%.
- (5) The other shareholders of Nanjing Xingang were Baslow with a shareholding of 30% and Seabright with a shareholding of 30%.
- (6) The other shareholders of Shaanxi Yingde were Baslow with a shareholding of 12.5% and Seabright with a shareholding of 12.5%.
- (7) As at January 1, 2005, Baslow, Peace & Smooth and QYSD held 20%, 11.5% and 20% interest in Hunan Yingde, respectively, and collectively a total of 51.5% interest in Hunan Yingde.
- (8) Prior to February 2006, the Controlling Shareholders, Baslow (Ms. Li and Mr. Strutt), Peace & Smooth and QYSD collectively held an effective interest of 47.5% in Hunan Yingde. Ms. Li and Mr. Strutt collectively held 80% beneficial interest in Baslow at the relevant time. As a result, the Controlling Shareholders' effective equity interest in Hunan Yingde held through Baslow was 16%. At the relevant time, Hunan Yingde's board comprised five members, three members of which were appointed by the Controlling Shareholders giving them majority voting rights and control over the board of directors of Hunan Yingde.

**Preparation for investment by Baring on June 20, 2006**

Yingde BVI was incorporated in the British Virgin Islands on April 18, 2006 to facilitate the proposed investment by Baring in our Group. Baring's investment, which was made on June 20, 2006, primarily involved the introduction of Baring as an equity investor in our Group and a financing provider for our

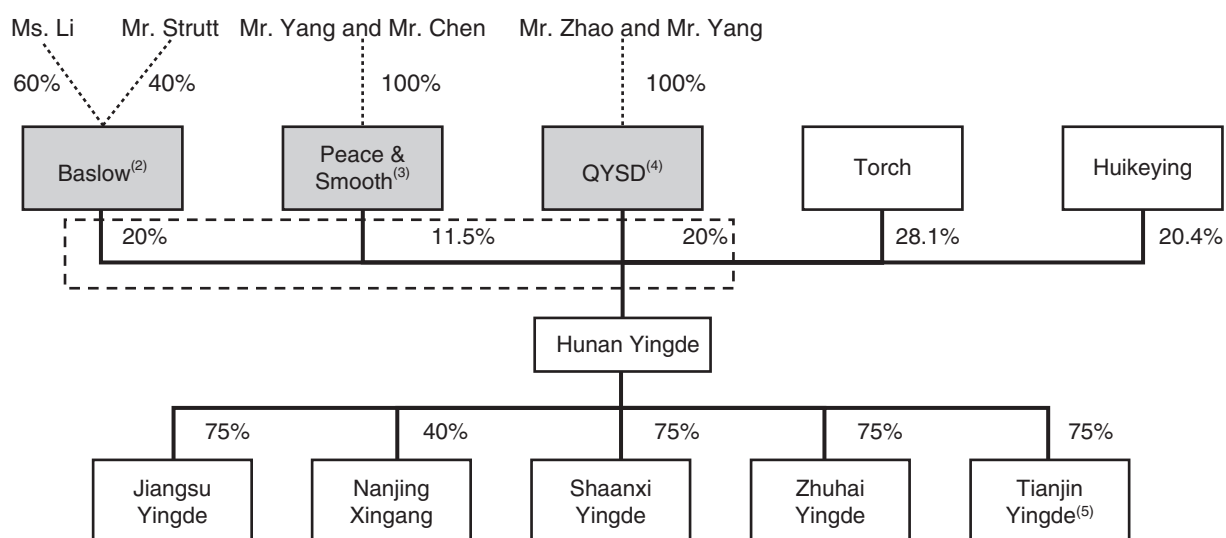


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purchase of the equity interests in Hunan Yingde that were previously owned by Torch and its affiliates. Baring's investments consisted of the subscription of 2,000 Preferred Shares and 850 ordinary shares (to be issued to Bubby Brooke) in Yingde BVI for a total consideration of US\$14 million, and the provision of a US\$20.2 million loan facility to Yingde BVI (comprising a US\$14.2 million loan and a US\$6 million convertible loan).

All of the Preferred Shares held by Baring will be automatically converted into Shares immediately prior to the commencement of dealings of our Shares on the Hong Kong Stock Exchange. Upon such automatic conversion, no Preferred Shares will be outstanding and as a result, none of the terms or rights of the Preferred Shares will be applicable.

The following chart illustrates the corporate structure of our Group immediately prior to the investment by Baring on June 20, 2006:



*Notes:*

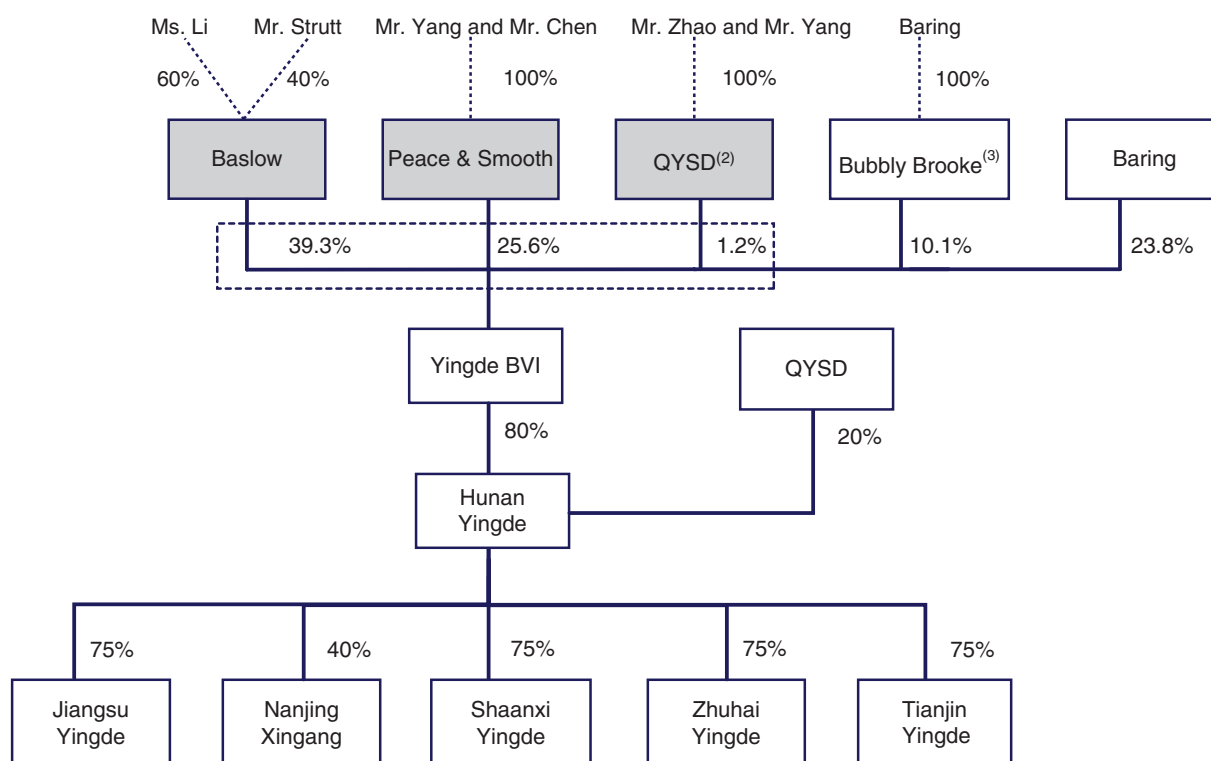
- (1) Each of Baslow and Peace & Smooth made cash contributions of approximately RMB8,000 to Yingde BVI at its establishment.
- (2) Immediately prior to the investment by Baring on June 20, 2006, Mr. Strutt was holding 60% of the interest in Baslow on behalf of Ms. Li and 40% of the interest in Baslow for himself and such arrangement continued after June 20, 2006. Mr. Strutt's shareholding in Baslow was initially 20% of the issued capital in Baslow which was issued to him on May 5, 2001, and subsequently 30%, 5% and 45% of the issued share capital of Baslow were transferred to him on August 31, 2004, October 25, 2005, and February 20, 2006, respectively.
- (3) Each of Mr. Chen and Mr. Yang owned 50% interest in Peace & Smooth.
- (4) Mr. Zhao and Mr. Yang owned 55% and 45% interest, respectively, in QYSD.
- (5) The other shareholders of Tianjin Yingde were Baslow with a shareholding of 5% and Seabright with a shareholding of 20%.

### Issuance of options on June 20, 2006 and completion of Baring's investment on June 22, 2006

We issued 100 options, accounting for approximately 1.2% of the then total issued share capital of Yingde BVI, to each of Mr. Zhao and Mr. Strutt to recognize their contribution to our Group, which they then held for the benefit of QYSD and Baslow, respectively. The 100 options granted to each of Mr. Zhao and Mr. Strutt are share-based employee benefits, which have been accounted for in the Accountants' Report set out in Appendix I to this document as equity settled share-based transactions. Baring's investment in our Group was completed on June 22, 2006, after which Yingde BVI purchased a total of 48.5% interest in Hunan Yingde from Torch and Huikeying in addition to the swap of Baslow and Peace & Smooth's shares in Hunan Yingde into shares of Yingde BVI.

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The following chart illustrates the corporate structure of our Group immediately after completion of these steps<sup>(1)</sup>:



*Notes:*

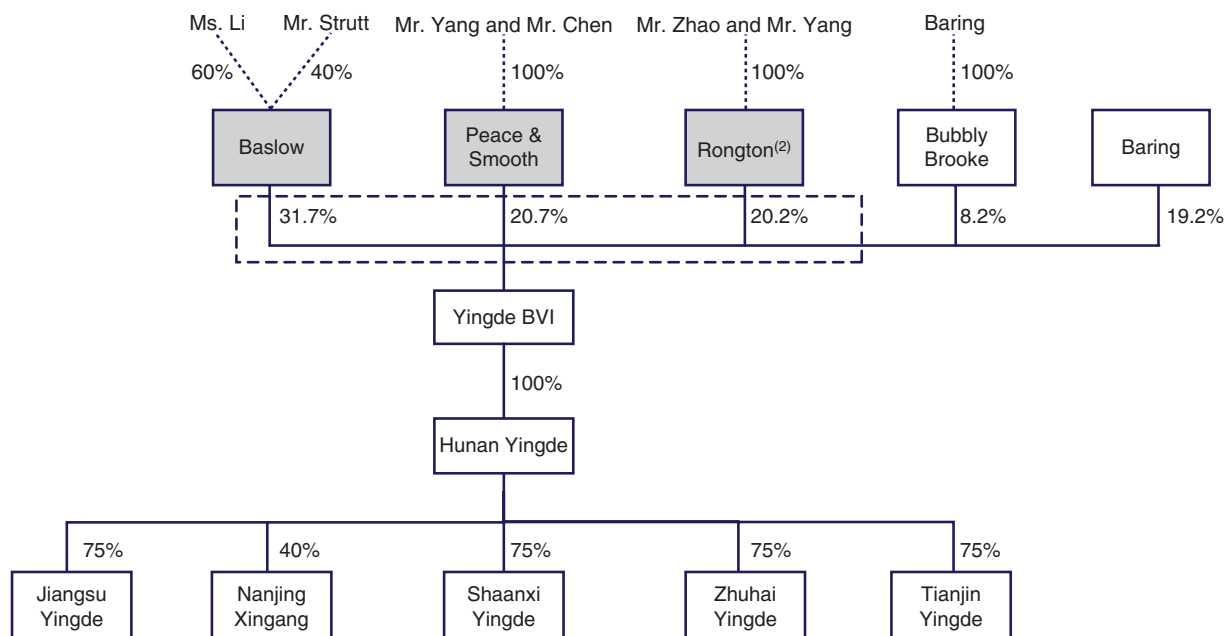
- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares and full exercise of the options held for the benefit of QYSD and Baslow into ordinary shares of Yingde BVI.
- (2) The 100 options granted to Mr. Zhao were held for the benefit of QYSD.
- (3) Pursuant to the convertible redeemable preferred shares subscription agreement with Baring dated June 20, 2006, Bubbly Brooke was entitled to subscribe for 850 shares of Yingde BVI at a nominal value of US\$1.00 each. As at June 22, 2006, Baring held 100% of the interest in Bubbly Brooke. At the time of Baring's initial investment in Yingde BVI, Baring granted Baslow an option to acquire Baring's shareholding in Bubbly Brooke for a total consideration of US\$4 million. Baslow subsequently exercised this option for US\$1.00 in January 2007.

### Acquisition of minority interest in Hunan Yingde from QYSD on August 23, 2006

Yingde BVI acquired a 20% minority interest in Hunan Yingde from QYSD on August 23, 2006, after which Hunan Yingde became a wholly-owned subsidiary of Yingde BVI. As consideration, Yingde BVI issued 2,000 shares representing approximately 20% of its then issued share capital to QYSD which nominated Rongton to accept the issuance of the shares on its behalf. The percentage of shares of Yingde BVI issued to QYSD was intended to ensure QYSD held the same percentage interest in Yingde BVI as in Hunan Yingde.

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The following chart illustrates the corporate structure of our Group after completion of these steps<sup>(1)</sup>:



**Notes:**

- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) Rongton is a company with the same shareholding structure as QYSD and is jointly controlled by Mr. Zhao and Mr. Yang. The options issued in the name of Mr. Zhao and previously held for the benefit of QYSD were subsequently held for the benefit of Rongton.

### Further rationalization of our Group structure on March 20, 2007

On March 20, 2007, we undertook a further rationalization of the ownership structure of our Group through the steps listed below.

- (i) We acquired those minority equity interests in our PRC subsidiaries previously held by Seabright on August 18, 2006 and we issued 2,015 ordinary shares in Yingde BVI to Seabright as consideration with reference to the profitability of those subsidiaries in 2006, accounting for approximately 14.3% of the then total issued share capital of Yingde BVI. Out of these 2,015 ordinary shares of Yingde BVI, Seabright nominated Rongton to accept the issuance of 1,733 ordinary shares, accounting for approximately 12.3% of the then total issued share capital of Yingde BVI, and sold 141 ordinary shares to each of Pinpoint Capital 2006 A Limited and Gold Stand Goal Limited in aggregate accounting for approximately 2.0% of the then total issued share capital of Yingde BVI on March 20, 2007.
- (ii) Yingde BVI acquired those minority equity interests in our PRC subsidiaries previously held by Baslow on August 18, 2006 and we issued 1,193 ordinary shares in Yingde BVI to Baslow as consideration with reference to the profitability of those subsidiaries in 2006, accounting for approximately 8.5% of the then total issued share capital of Yingde BVI on March 20, 2007.
- (iii) Baring's US\$6 million convertible loan was converted on December 29, 2006 and subsequently 502 ordinary shares of Yingde BVI, accounting for approximately 3.6% of the then total issued share capital of Yingde BVI, were issued to Baring pursuant to this conversion on March 20, 2007.

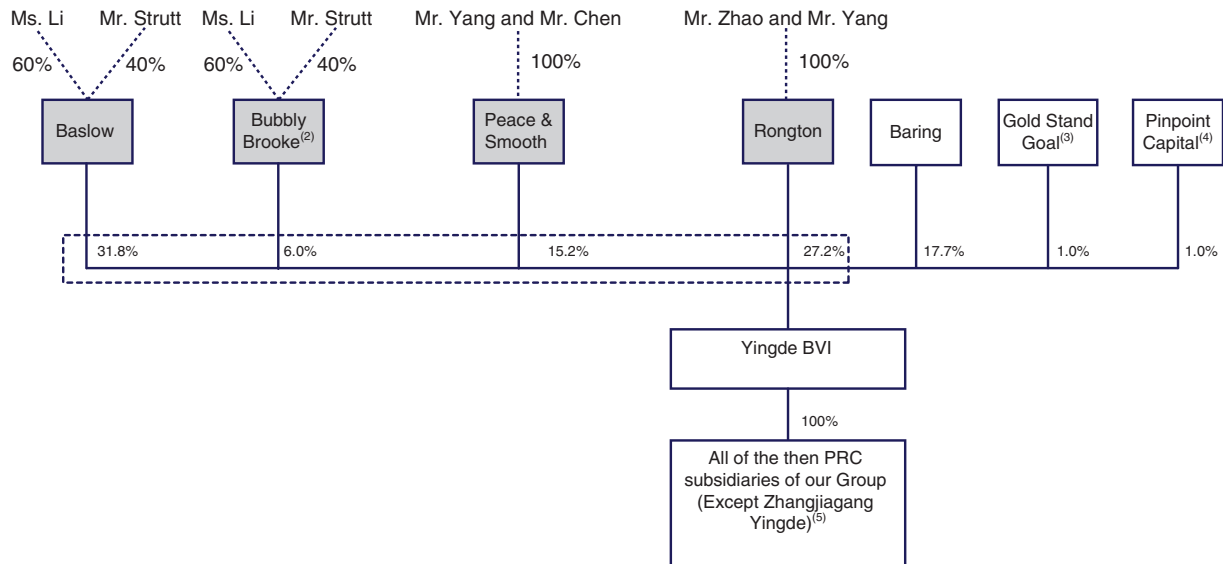


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Following completion of these steps, all of our then subsidiaries in the PRC became wholly-owned subsidiaries (directly or indirectly) of Yingde BVI except for Zhangjiagang Yingde.

The following chart illustrates the corporate structure of our Group after completion of these steps<sup>(1)</sup>:



**Notes:**

- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) On January 26, 2007, Mr. Strutt became the sole shareholder and director of Bubbly Brooke after acquiring 100% of the total issued share capital of Bubbly Brooke from Baring. Bubbly Brooke holds all its shares in Yingde BVI on trust for Baslow.
- (3) Gold Stand Goal Limited is a company incorporated in the British Virgin Islands and is an independent third party of our Group. Our directors believe that Gold Stand Goal invested in our Group because it recognized the growth potential of our Group.
- (4) Pinpoint Capital 2006 A Limited is a company incorporated in the British Virgin Islands and is an independent third party of our Group. Our directors believe that Pinpoint Capital invested in our Group because it recognized the growth potential of our Group.
- (5) Hunan Yingde became a 75% shareholder of Zhangjiagang Yingde from July 31, 2006 after acquiring the interest in Zhangjiagang Yingde held by China Hi-tech Group Company Limited (中國高科集團股份有限公司). The remaining 25% interest is held by Smart Excel Investment Ltd., a company incorporated in the British Virgin Islands which is an independent third party of our Group.

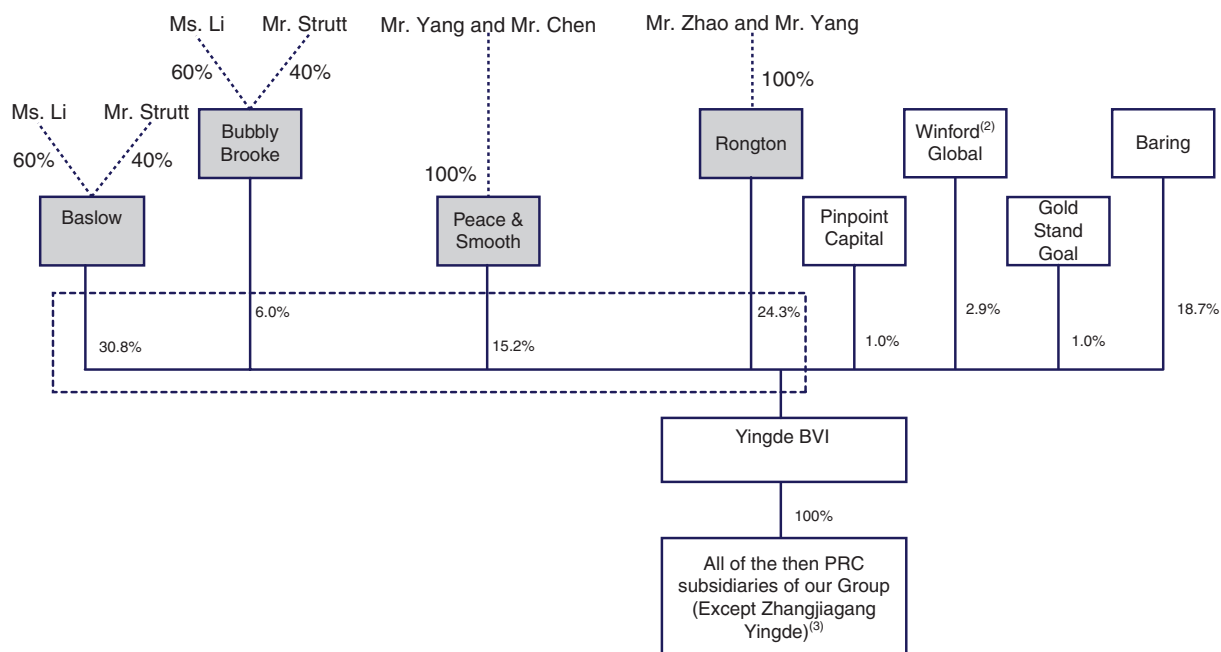
### Disposals by our shareholders on May 30, 2007

On May 30, 2007, certain of our shareholders sold some of their shareholdings in Yingde BVI as follows:

- (i) Baslow and Rongton sold a total of 411 ordinary shares of Yingde BVI, accounting for approximately 2.9% of the then total issued share capital of Yingde BVI, to Winford Global Investments Limited; and
- (ii) Rongton sold 139 ordinary shares of Yingde BVI, accounting for approximately 1.0% of the then total issued share capital of Yingde BVI, to Baring.

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The following chart illustrates the corporate structure of our Group after completion of these steps<sup>(1)</sup>:



**Notes:**

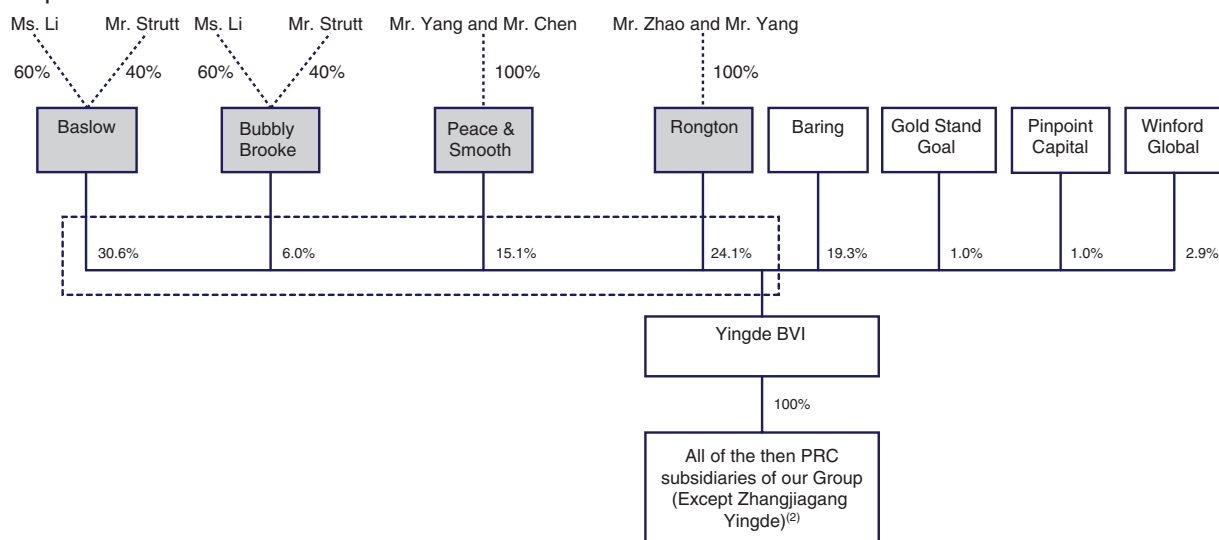
- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) Winford Global Investments Limited is a company incorporated in the British Virgin Islands and is an independent third party of our Group. Our directors believe that Winford Global invested in our Group because it recognized the growth potential of our Group.
- (3) Hunan Yingde holds a 75% equity interest in Zhangjiagang Yingde.

### Further issuance of shares on June 29, 2007

On June 29, 2007, Yingde BVI issued 102 ordinary shares, accounting for approximately 0.6% of the then total issued share capital of Yingde BVI, to Baring pursuant to a US\$2 million subscription agreement. For further information please refer to the section headed “Our History and Reorganization — Information Regarding Baring — US\$2 million subscription of ordinary shares” below.

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The following chart illustrates the corporate structure of our Group after completion of the above step<sup>(1)</sup>:



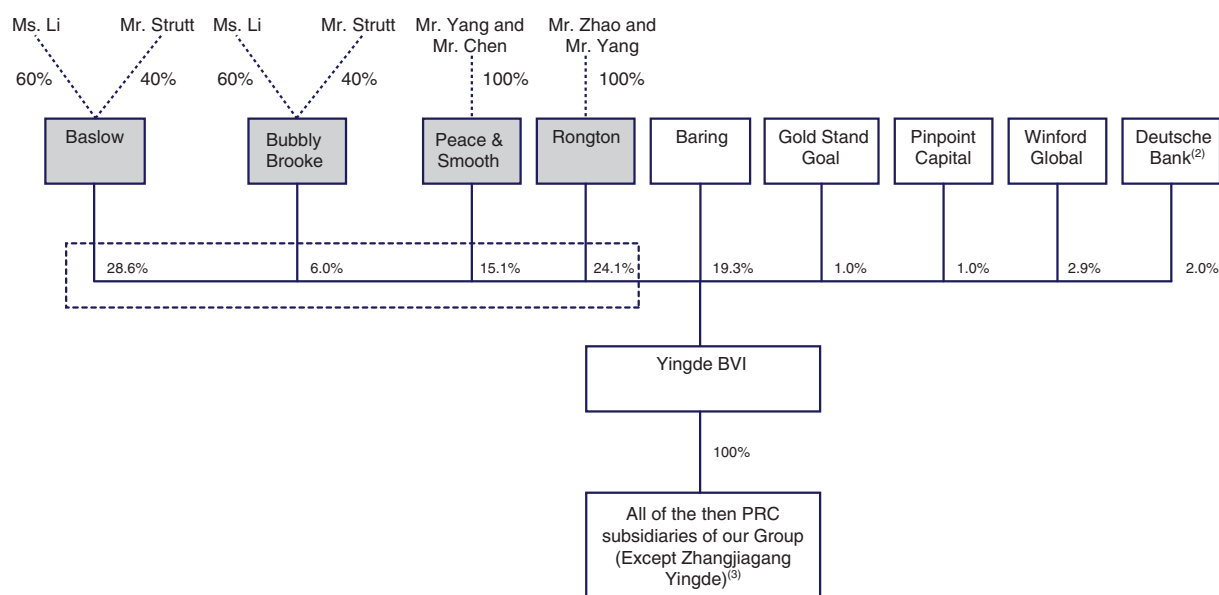
**Notes:**

- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) Hunan Yingde holds 75% equity in Zhangjiagang Yingde.

### Further disposal of shares by a shareholder on August 3, 2007

On August 3, 2007, Baslow, disposed of 282 ordinary shares, accounting for approximately 2.0% of the then total issued share capital of Yingde BVI, to Deutsche Bank AG, acting through its Hong Kong Branch.

The following chart illustrates the corporate structure of our Group after this disposal<sup>(1)</sup>:



**Notes:**

- (1) The above chart illustrates the respective interests in Yingde BVI on a fully diluted basis assuming full conversion of the Preferred Shares into ordinary shares of Yingde BVI and full exercise of the options held for the benefit of Rongton and Baslow.
- (2) Deutsche Bank is an independent third party of our Group.
- (3) Hunan Yingde holds a 75% equity interest in Zhangjiagang Yingde.

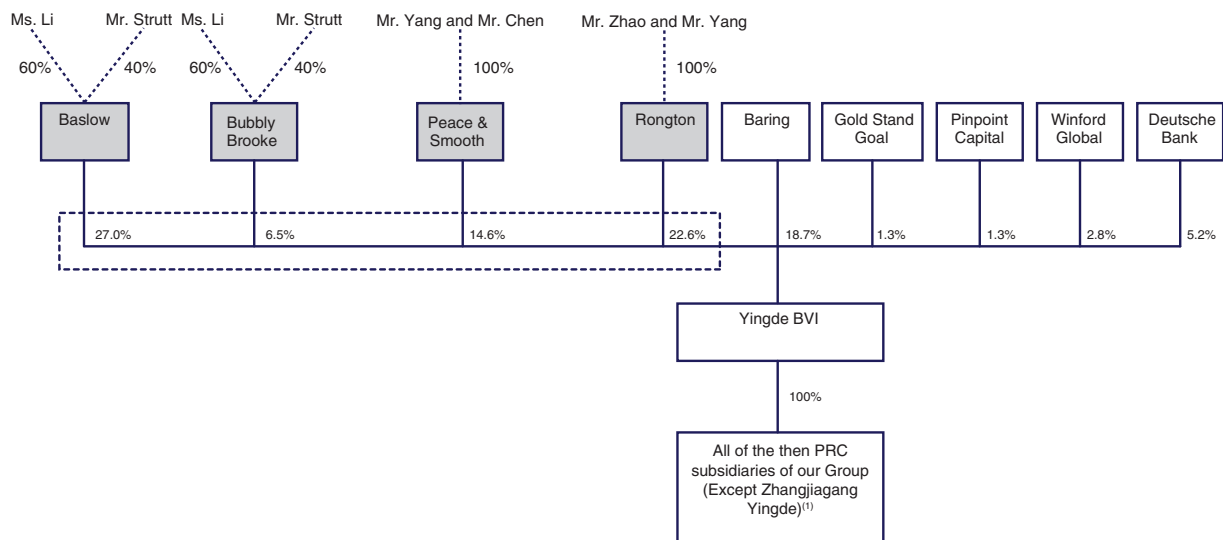
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**Further disposal of shares by our shareholders, issuance of new shares and exercise of options in November 2007**

In November 2007, the following events occurred:

- (i) Rongton sold 50 ordinary shares in Yingde BVI to Pinpoint Capital, accounting for approximately 0.3% of the then total issued share capital of Yingde BVI, on November 21, 2007;
- (ii) Rongton sold 50 ordinary shares in Yingde BVI to Gold Stand Goal, accounting for approximately 0.3% of the then total issued share capital of Yingde BVI, on November 21, 2007;
- (iii) 488 ordinary shares of Yingde BVI, accounting for approximately 3.2% of the then total issued share capital of Yingde BVI, were issued on November 19, 2007 to Deutsche Securities Nominees Hong Kong Limited, a subsidiary of one of our existing shareholders, Deutsche Bank AG, for approximately US\$39.3 million in order to raise capital to fund our business expansion and project development; and
- (iv) The 100 share options held by each of Mr. Zhao for the benefit of Rongton and Mr. Strutt for the benefit of Baslow were exercised, resulting in the issuance of 100 ordinary shares of Yingde BVI to each of Rongton and Bubbly Brooke on November 11, 2007. The 100 options originally issued to Mr. Strutt and held for the benefit of Baslow was exercised under the name of Bubbly Brooke because Bubbly Brooke held all its shares in Yingde BVI on trust for Baslow.

The following chart illustrates the corporate structure of our Group upon the occurrence of these events:



*Note:*

(1) Hunan Yingde holds a 75% equity interest in Zhangjiagang Yingde.

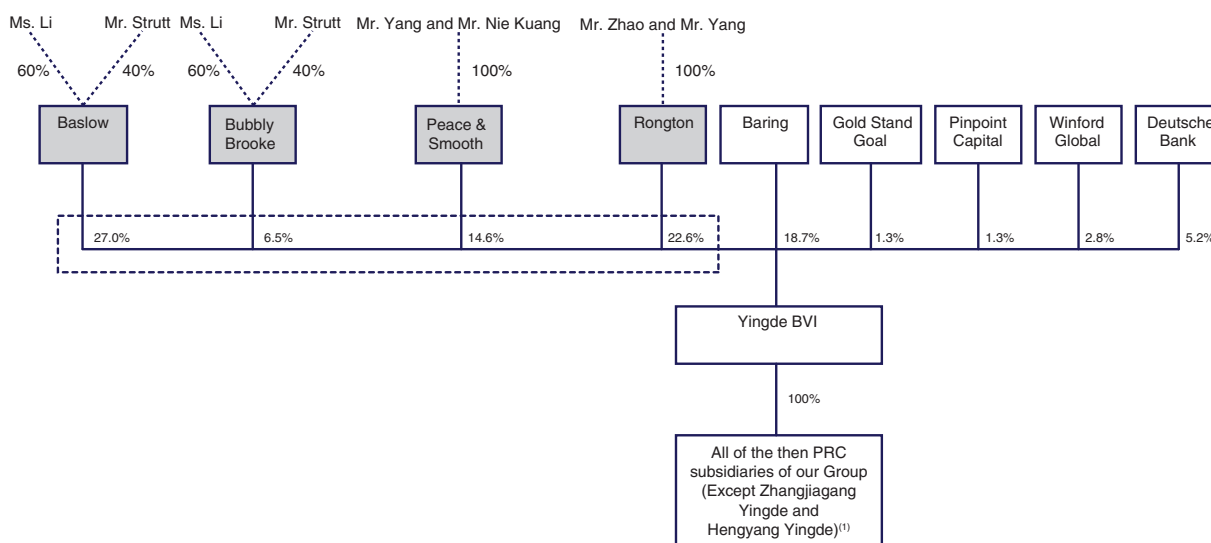
**Mr. Nie Kuang replaced Mr. Chen Yan as a representative of the former Torch management team on March 6, 2009**

On March 6, 2009, Mr. Nie Kuang replaced Mr. Chen Yan as a representative of the 31 members of the former Torch management team and accordingly, Mr. Nie Kuang became the registered shareholder of all of the Peace & Smooth shares previously held by Mr. Chen Yan. Mr. Nie Kuang is the son of Mr. Nie Xinyong and is well known to the former Torch management team. We understand that Mr. Nie Kuang has never been a director nor held any management or other position in Torch, and did not have any involvement in the previous non-compliance of Torch as disclosed in the section

## OUR HISTORY AND REORGANIZATION

headed "Further Information on Torch" above. Mr. Nie Kuang's role is limited to being an indirect shareholder of our Company arising from his role as a shareholder of Peace & Smooth and a representative of the 31 members of former Torch management, Mr. Nie Kuang does not hold any directorship or management or other position in our Group nor have any influence on the business or internal control of our Group. Other than disclosed in this document, Mr. Nie Kuang is not an associate of our Company or our connected persons. Please see the paragraph headed "Arrangement among shareholders of Peace & Smooth, Rongton and the 31 members of the former Torch management" in this section for further details.

The following chart illustrates the corporate structure of our Group upon the occurrence of this event:



Note:

(1) Hunan Yingde holds a 75% equity interest in Zhangjiagang Yingde. Hunan Yingde and Yingde BVI collectively hold a 70% equity interest in Hengyang Yingde which was established on December 23, 2008.

### Arrangements among shareholders of Peace & Smooth, Rongton and the 31 members of the former Torch management

A total of 31 members of the former Torch management team, led by Mr. Nie Xinyong, Mr. Zhao and Mr. Yang, contributed financing to the establishment of Hunan Yingde. Please see the section headed "Background" above. Pursuant to the arrangements between Mr. Nie Xinyong, Mr. Zhao and Mr. Yang and the other members of the former Torch management, QYSD, Peace & Smooth and Rongton were the entities through which the representatives' investments were made with financial contributions from the 31 members. Certain representatives of the 31 members, including Mr. Zhao, Mr. Yang and, subsequently, Mr. Chen (who became a representative from May 24, 2005 replacing Mr. Deng Jun and Mr. Tang Lin), and Mr. Nie Kuang (who became a representative from March 6, 2009 replacing Mr. Chen) were the shareholders of these entities, exercising all shareholder rights including voting rights in respect of the shares, and dividend rights. The representatives agreed to pass on the economic benefits consequent upon any disposal of shares of Hunan Yingde, or as the case may be, our Company by these entities to the relevant 31 members as recognition of their financial contributions. These representatives controlled and managed the 31 members' investment in our Company. They were also the senior members of the former Torch management (or their associates) who introduced this investment opportunity to the other members. As at the Latest Practicable Date, Peace & Smooth and Rongton are the registered shareholders of our Company, and as such, they are the legal owners of the Shares in our Company. The representatives, being the legal owners of Peace & Smooth and Rongton shares, are deemed to be interested in the Shares held by Peace & Smooth and Rongton.

## OUR HISTORY AND REORGANIZATION

Pursuant to the arrangements between the representatives and the 31 members, the representatives have the right to initiate disposal of the Shares held by Peace & Smooth and Rongton, but consent of the 31 members for such disposal is required. On the other hand, the 31 members are also entitled to request for disposal of the Shares held by Peace & Smooth and Rongton, but consent of the representatives for such disposal is required. Our PRC legal advisors have also confirmed these arrangements between the 31 members and the representatives are legal, valid and binding under PRC law. The representatives may refuse to dispose of the Shares held by Peace & Smooth and Rongton despite the unwillingness or objections of the 31 members. In the event that there is no disposal of the Shares held by Peace & Smooth and Rongton, the representatives will continue to enjoy the dividends and voting rights they are entitled to under the investment arrangements with the 31 members (who are only entitled to the economic interest upon disposal). Disagreements between the representatives and the 31 members may be resolved through good faith and amicable discussions and negotiations. Any disagreement that cannot be resolved through this process will be submitted for arbitration by the Shanghai Arbitration Commission.

The representatives are also entitled to receive 3% of the proceeds from the disposal of the Shares as their fee for managing the investment on behalf of the 31 members. The 31 members receive returns for providing financial resources in support of the establishment of Hunan Yingde and our Group in the form of proceeds upon sale of the shares of Hunan Yingde or, as the case may be, our Company. These arrangements between the 31 members of the former Torch management team and the representatives also extended to companies formed subsequently to hold these investments, including Seabright. The 31 members of the former Torch management team personally funded their respective investments in our Group for their individual benefit and were not acting for the benefit of Torch.

Among the 31 members, Mr. Nie Xinyong, Mr. Zhao and Mr. Yang hold the largest economic interest in the proceeds upon disposal of the Shares: their combined interests account for approximately 47.4% of that portion of the total issued share capital of our Company in which the 31 members have an interest, representing an economic interest proportionate to approximately 17.6% of the total Shares as at the Latest Practicable Date (assuming all of the Preferred Shares have been converted into the Shares). The economic interests of each of the remaining members of the 31 members of the former Torch management team are between 1% and 3% of that portion of the total issued share capital of our Company in which the 31 members have an interest, representing in aggregate approximately 19.6% of the total Shares as at the Latest Practicable Date (assuming all of the Preferred Shares have been converted into Shares).

### **(i) Arrangements with respect to Peace & Smooth**

Each of Mr. Nie Kuang and Mr. Yang holds a 50% interest in Peace & Smooth, pursuant to which they hold the economic interests in the proceeds upon any disposal of the Shares held by Peace & Smooth on behalf of 15 people amongst the 31 members of the former Torch management team, including Mr. Nie Xinyong and Mr. Yang. The economic interests of Mr. Nie Xinyong and Mr. Yang in the Shares held through Peace & Smooth amounts to approximately 34.9% and 6.1% respectively of the Shares held by Peace & Smooth as at the Latest Practicable Date.

Each of these 15 members initially entered into agreements with Mr. Zhao and Mr. Yang dated September 8, 2001 setting out the arrangements between them with regard to their financial contributions to Hunan Yingde, and entered into further agreements with Mr. Chen and Mr. Yang dated November 8, 2007. Further agreements with Mr. Nie Kuang and Mr. Yang were entered into on or about June 10, 2009 which superseded the 2001 and 2007 agreements and formalized and particularized these arrangements. These trust agreements entered into in 2001, 2007 and 2009 are governed by PRC law and our PRC legal advisors are of the view that these agreements are legal, valid and binding under PRC law. Mr. Nie Kuang and Mr. Yang have agreed to pass on the economic interests in the proceeds of any disposal of the Shares held by Peace & Smooth to these 15 members in proportion to the contributions they made to Hunan Yingde. Pursuant to the arrangements, Mr. Nie



## OUR HISTORY AND REORGANIZATION

Kuang and Mr. Yang shall exercise all shareholder rights in relation to the shares held in Peace & Smooth and our Company, including voting rights and the rights to receive dividends. In addition, Mr. Nie Kuang and Mr. Yang retain the right to decide, with the consent of the 15 members, the timing and amount of any disposals of the Shares, which they will exercise after taking into account various factors which may include lock-up undertakings, legal implications and market conditions. The members may request Mr. Nie Kuang and Mr. Yang to dispose of the Shares, and Mr. Nie Kuang and Mr. Yang are entitled to consider such request after taking into account the above factors.

### (ii) Arrangements with respect to Rongton

Mr. Zhao and Mr. Yang hold a 55% and a 45% interest in Rongton, respectively, pursuant to which they hold the economic interests in the proceeds of any disposal of the Shares held by Rongton on behalf of a group of 18 people amongst the 31 members of the former Torch management team, including Mr. Nie Xinyong, Mr. Zhao and Mr. Yang. The economic interests of Mr. Nie Xinyong, Mr. Zhao and Mr. Yang in the Shares held through Rongton are approximately 22.5%, 15.3% and 11.2% respectively of the Shares held by Rongton as at the Latest Practicable Date.

Each of these 18 members initially entered into agreements with Mr. Zhao and Mr. Yang dated September 8, 2001 setting out the arrangements between them with regard to their contributions to Hunan Yingde, and entered into further agreements dated November 8, 2007. Further agreements with Mr. Zhao and Mr. Yang were entered into on or about June 10, 2009 which superseded the 2001 and 2007 agreements and formalized and particularized these arrangements. These trust agreements entered into in 2001, 2007 and 2009 are governed by PRC law and our PRC legal advisors are of the view that these agreements are legal, valid and binding under PRC law. Mr. Zhao and Mr. Yang have agreed to pass on the economic interests in the proceeds of any disposal of the Shares held by Rongton to these 18 members in proportion to the contributions they made to Hunan Yingde. Pursuant to the arrangements, Mr. Zhao and Mr. Yang shall exercise all shareholder rights in relation to the shares held in Rongton and our Company, including voting rights and the rights to receive dividends. In addition, Mr. Zhao and Mr. Yang retain the right to decide, with the consent of the 18 members, the timing and amounts of any disposals of the Shares, which they will exercise after taking into account various factors which may include lock-up undertakings, legal implications and market conditions. The members may request Mr. Zhao and Mr. Yang to dispose of the Shares, and Mr. Zhao and Mr. Yang are entitled to consider such request after taking into account the above factors.

### Controlling Shareholders

The following parties constitute the core group of shareholders who exercise voting control over the relevant shares of our Group held through the relevant shareholding companies from January 1, 2007:

- Baslow and Bubbly Brooke — Ms. Li owned 60% of the voting power and economic interest in Baslow and nominated Mr. Strutt to act as her trustee and representative. Mr. Strutt owned and controlled the remaining 40% voting power and economic interest in Baslow. Bubbly Brooke holds all of its shares in Yingde BVI on trust for Baslow;
- Peace & Smooth — Mr. Nie Kuang and Mr. Yang collectively exercise control over 100% of the shares of Peace & Smooth. They have agreed to pass on the economic interest in the proceeds upon disposal of shares to certain of the 31 members of former Torch management in recognition of their financial contributions in respect of the investment in our Group but retain control over the voting power in respect of the shares in our Group. The economic interest in the proceeds of any disposal of the Shares held by Peace & Smooth is to be shared amongst 15 of the 31 members of former Torch management, and the composition of these 15 people has not change since January 1, 2007; and
- Rongton — Mr. Zhao and Mr. Yang collectively exercise control over 100% of the shares of Rongton. They have agreed to pass on the economic interest in the proceeds upon

## OUR HISTORY AND REORGANIZATION

disposal of shares to certain of the 31 members of former Torch management in recognition of their financial contributions in respect of the investment in our Group but retain control over the voting power in respect of the shares in our Group. The economic interest in the proceeds of any disposal of the Shares held by Rongton is to be shared amongst 18 of the 31 members of former Torch management, and the composition of these 18 people has not changed since January 1, 2007. Mr. Nie Xinyong and Mr. Yang, as members of the 31 members of former Torch management, have economic interests in the Shares held by Rongton and Peace & Smooth.

In addition:

- an agreement on voting arrangements in Hunan Yingde was entered into on December 18, 2001 amongst Baslow, Peace & Smooth, QYSD and Tongyue to the effect that Baslow, Peace & Smooth, QYSD and Tongyue shall vote together with respect to decisions in connection with Hunan Yingde. Our PRC legal advisors confirm that it is with the power of the representatives, without the consent of the 31 members, to enter into and perform the agreement on voting arrangements of December 18, 2001 and to agree and continue to agree on the terms and conditions of such agreement, and the agreements dated August 18, 2006 and August 23, 2006 confirming that the agreement on voting arrangements will be honored. Peace & Smooth, QYSD and Tongyue entered into the agreement on voting arrangements with Baslow, rather than Torch, because Mr. Zhao, Mr. Yang, Mr. Sun and Ms. Li personally shared the same vision in respect of the long-term development and business objectives of our Group;
- Ms. Li and Mr. Strutt act in concert with the other Controlling Shareholders of our Company through their investment vehicle, Baslow, which is a party to the voting agreement dated December 18, 2001. Ms. Li and Mr. Strutt have acted in concert with the other Controlling Shareholders through Bubbly Brooke since January 26, 2007 when Bubbly Brooke began to hold all its shares in Yingde BVI on trust for Baslow. Bubbly Brooke became bound by the voting agreement dated December 18, 2001 as Baslow was the trustee of Bubbly Brooke;
- on September 16, 2009, Baslow, Bubbly Brooke, Peace & Smooth, Rongton, Mr. Zhao, Mr. Yang, Mr. Nie Kuang, Ms. Li and Mr. Strutt entered into a new voting arrangement with substantially similar terms as the voting agreement dated December 18, 2001; and
- during the Track Record Period, the representatives of Baslow, Peace & Smooth and QYSD or Rongton (as the case may be) on the board of directors of our Group always voted in the same manner in relation to all management and operational decisions concerning our Group.

On the basis set out above, Baslow, Bubbly Brooke, Peace & Smooth and Rongton have collectively exercised control over more than 50% of the voting power and shares of Yingde BVI and subsequently our Company since January 1, 2007. Accordingly, these entities together with Ms. Li, Mr. Strutt, and the representatives of the former Torch management team (Mr. Nie Kuang, Mr. Zhao and Mr. Yang) are considered to comprise the group of Controlling Shareholders of our Company.

## INFORMATION REGARDING BARING

Baring Private Equity Asia III Holding (7A) Limited is an investment holding company whose entire share capital is owned by The Baring Asia Private Equity Fund III, a private equity fund comprising limited partnerships established in the Cayman Islands.

## OUR HISTORY AND REORGANIZATION

The investment by Baring in our Group consisted of the following:

### **(a) US\$14 million Preferred Shares**

On June 20, 2006, Yingde BVI entered into a convertible redeemable preferred shares subscription agreement with Baring pursuant to which Yingde BVI agreed to issue and allot and Baring agreed to subscribe for 2,000 Preferred Shares and 850 ordinary shares (to be issued and allotted to Bubbly Brooke) in the share capital of Yingde BVI (representing approximately 23.8% and 10.1%, respectively, of the then existing issued share capital of Yingde BVI on a fully diluted basis assuming all Preferred Shares were converted into ordinary shares of Yingde BVI and the exercise in full of all outstanding options) for cash consideration of US\$14 million. The settlement date was June 23, 2006. The Preferred Shares may be converted into ordinary shares of Yingde BVI at the option of Baring or redeemed pursuant to the convertible redeemable preferred shares subscription agreement. All the Preferred Shares will be automatically converted into Shares immediately prior to [●].

The proceeds from the issuance of the Preferred Shares to Baring were applied for the acquisition of 48.5% interest in Hunan Yingde from Torch and Huikeying as part of the Reorganization. As the proceeds were applied for the acquisition of a minority interest in Hunan Yingde, our directors are of the view that the use of the proceeds from the issuance of the Preferred Shares is of a capital nature.

Consideration for the issuance of the Preferred Shares under the convertible redeemable preferred shares subscription agreement relating to Yingde BVI was determined through commercial negotiation between us and Baring to reach a then fair valuation of our Group. The Preferred Shares were issued at equivalent to approximately HK\$0.55 per Share based on the total number of issued Shares. The conditions precedent included Yingde BVI entering into a loan agreement with Baring, and Yingde BVI, Peace & Smooth and Baslow having complied with all the representations, warranties and undertakings, which they made to Baring.

Pursuant to the subscription agreement described above, all the Preferred Shares held by Baring will be automatically converted into Shares immediately prior to [●].

### **(b) US\$20.2 million loan facility**

On June 20, 2006, Yingde BVI entered into a loan facility agreement with Baring pursuant to which an affiliate of Baring agreed to provide a US\$20.2 million loan facility to Yingde BVI, of which US\$6 million was a convertible loan facility. On December 29, 2006, the convertible loan and the interest accrued thereon were converted into 502 ordinary shares of Yingde BVI (representing approximately 3.6% of the then existing issued share capital of Yingde BVI on a fully diluted basis assuming all Preferred Shares were converted into the ordinary shares of Yingde BVI). The ordinary shares issued by Yingde BVI pursuant to the conversion of the convertible loan ranked equally with all the other ordinary shares in the share capital of Yingde BVI at that time with no special terms and conditions attached. The remaining US\$14.2 million loan facility and the interest accrued thereon have been fully repaid.

Consideration for the US\$20.2 million loan facility including the US\$6 million convertible loan facility was determined through commercial negotiation between us and Baring to reach the then fair valuation of our Group. The annual rate of interest payable was determined by the lender to be the aggregate of 3% and the Singapore inter-bank borrowing rate for US dollars as quoted by The Hongkong and Shanghai Banking Corporation Limited. The shares issued pursuant to the US\$6 million convertible loan facility were issued at equivalent to approximately HK\$0.93 per Share based on the total number of issued Shares prior to [●].

## OUR HISTORY AND REORGANIZATION

### **(c) US\$2 million subscription of ordinary shares**

On December 29, 2006, Yingde BVI and Baring entered into a subscription agreement relating to the subscription for 102 ordinary shares in Yingde BVI by Baring (representing approximately 0.7% of the then existing issued share capital of Yingde BVI on a fully diluted basis assuming all Preferred Shares were converted into ordinary shares of Yingde BVI). The ordinary shares issued by Yingde BVI pursuant to the subscription agreement ranked equally with all other ordinary shares in the share capital of Yingde BVI at that time with no special terms and conditions attached. The settlement date was December 31, 2006.

Consideration for the subscription agreement relating to the subscription for the 102 ordinary shares in Yingde BVI by Baring was determined through commercial negotiation between us and Baring to reach a then fair valuation of our Group. The shares issued pursuant to the ordinary share subscription agreement were issued at equivalent to approximately HK\$1.53 per Share based on the total number of issued Shares.

### **Conversion of Preferred Shares**

The Preferred Shares comprise three components: (a) a derivative liability on currency swap; (b) a liability component; and (c) an equity component. The derivative liability on currency swap and the liability component are presented as current liability and the equity component is presented as other reserve within the equity.

If the Preferred Shares are converted into Shares, the other reserve, together with the carrying amount of the liability at the time of conversion, will be transferred to share capital and share premium as consideration for the Shares issued. Our directors confirmed that there will be no impact on our consolidated income statement.

All of the Preferred Shares held by Baring will be converted into Shares immediately prior to [●]. Upon such conversion, no Preferred Shares will be outstanding and, as a result, none of the terms and rights of the Preferred Shares will be applicable.

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## OUR HISTORY AND REORGANIZATION

### INFORMATION ON THE OTHER FINANCIAL INVESTORS

The table below sets out information relating to the other financial investors:

<u>Investor</u>	<u>Shareholding in our Company as at the Latest Practicable Date</u>	<u>Number of Shares</u>	<u>Consideration paid</u>	<u>Settlement date</u>
<b>Gold Stand Goal</b>	1.3%	14,100,000	US\$ 3,800,000	End of February 2007
An investment holding company incorporated in the British Virgin Islands, and an independent third party of our Group. Gold Stand Goal Limited and Pinpoint Capital 2006 A Limited belong to the same fund.		5,000,000	US\$ 4,024,643	November 20, 2007
<b>Pinpoint Capital</b>	1.3%	14,100,000	US\$ 3,800,000	End of February 2007
An investment holding company incorporated in the British Virgin Islands, and an independent third party of our Group. Gold Stand Goal Limited and Pinpoint Capital 2006 A Limited belong to the same fund. Such fund invests in new energy and services industries and has invested in LDK Solar Co. Ltd., a company listed on the New York Stock Exchange.		5,000,000	US\$ 4,024,643	November 20, 2007
<b>Winford Global</b>	2.8%	27,000,000	US\$12,507,008	June 8, 2007 (with majority of payment made by May 30, 2007)
An investment holding company incorporated in the British Virgin Islands, and an independent third party of our Group.		14,100,000	US\$ 6,531,437	
<b>Deutsche Bank</b>	5.2%	28,200,000	US\$13,207,656	August 6, 2007
An international financial institution, the parent company of Deutsche Securities Nominees Hong Kong Limited, and an independent third party of our Group.		48,800,000	US\$39,263,080	November 19, 2007

The Shares held by Deutsche Bank were acquired at an average cost equivalent to approximately HK\$5.32 per Share based on the total number of issued Shares.

The Shares held by Gold Stand Goal were acquired at an average cost equivalent to approximately HK\$3.20 per Share based on the total number of issued Shares.

The Shares held by Pinpoint Capital were acquired at a cost equivalent to approximately HK\$3.20 per Share based on the total number of issued Shares.

The Shares held by Winford Capital were acquired at an average cost equivalent to approximately HK\$3.61 per Share based on the total number of issued Shares.

### REORGANIZATION

We undertook the following steps in connection with our Reorganization:

#### Incorporation of our Company

Our Company was incorporated in the Cayman Islands on September 25, 2007 with an authorized share capital of US\$50,000 divided into 50,000 Shares with a nominal value of US\$1.00 per Share.

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## OUR HISTORY AND REORGANIZATION

On July 21, 2008, each share in the capital of our Company with a nominal value of US\$1.00 each was sub-divided into 1,000,000 shares of par value of US\$0.000001 each, after which the authorized share capital of our Company of US\$50,000 was divided into 49,600,000,000 ordinary shares of US\$0.000001 par value each and 400,000,000 preferred shares of US\$0.000001 par value each.

### Share exchange

On July 10, 2009, our Company conducted a share exchange pursuant to which all the shares in Yingde BVI were exchanged for the Shares. The consideration for this share exchange was satisfied by an issue of a total of 1,269,000,000 Shares and 200,000,000 Preferred Shares to the then shareholders of Yingde BVI. On July 10, 2009, the authorized share capital of our Company was redesignated as 49,800,000,000 ordinary shares of US\$0.000001 par value each and 200,000,000 preferred shares of US\$0.000001 par value each. As a result of this share exchange, Yingde BVI became wholly-owned by our Company.

### Rationalization of shareholding by Baslow and Bubbly Brooke

Ms. Li and Mr. Strutt decided to rationalize their respective shareholding in our Company in preparation for the initial public offering of the Shares and on the same date as executing the share exchange agreement, reached an agreement that Baslow should continue to be the investment vehicle representing the interest of Mr. Strutt (i.e. 40% of aggregate interest in our Company held through Baslow and Bubbly Brooke) and Bubbly Brooke should continue to be used as the investment vehicle representing the interest of Ms. Li (i.e. 60% of aggregate interest in our Company held through Baslow and Bubbly Brooke which was previously held by Mr. Strutt and Bubbly Brooke on trust). Ms. Li and Mr. Strutt achieved such rationalization of their respective interests during the share exchange process in which Bubbly Brooke received additional Shares from Baslow in order to achieve the agreement reached between Ms. Li and Mr. Strutt. Baslow and Bubbly Brooke held approximately 13.4% and 20.1% of the total issued share capital of our Company after our Reorganization, respectively. The purpose of this swap in investment vehicles was to achieve a more streamlined shareholding structure. This rationalization did not in substance change the ultimate beneficial interest in the Shares held by Ms. Li and Mr. Strutt. For further information on the shareholding in Baslow and Bubbly Brooke after the share exchange, please refer to the section headed "Substantial Shareholders" in this document.

### Regulations on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC

The Rules on the Acquisition of Domestic Enterprises by Foreign Investors in the PRC, or the M&A Rules, came into effect on September 8, 2006. Under the M&A Rules, a foreign investor is required to obtain regulatory approvals when it (i) acquires equity of a domestic enterprise resulting in the conversion of the domestic enterprise into a foreign-invested enterprise; (ii) subscribes additional equity capital of a domestic enterprise resulting in the conversion of the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise and acquires assets from a domestic enterprise; or (iv) acquires the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. In addition, if a security offering involves a reorganization that falls within the scope of the activities described above, approval from the CSRC is required for the offering.

According to our Company's PRC legal advisors, neither our Company nor Yingde BVI has conducted any activities described in the M&A Rules after September 8, 2006.