

**HISTORY AND DEVELOPMENT**

**Corporate History**

We commenced production of general health food products in 1998 and nutritional supplements in 1999. We commenced production of amino acid-based tablets in 1998 after the completion of our first production line which had an annual production capacity of 10 million tablets. Our annual production capacity was expanded to 20 million tablets in 2000. We subsequently commenced production of other types of nutritional supplements, including our royal jelly tablets, osteoid sachet powder and blood lipid capsules, as well as certain general health food products. Our tablet production line received GMP certification for nutritional supplements in March 2004, and our capsule production line received GMP certification for nutritional supplements in August 2005. We have also recently entered into the pharmaceutical business through the acquisition in July 2009 of a 100% equity interest in Nanjing Ruinian, which mainly manufactures and sells three pharmaceutical products: ofloxacin eye drops, ciprofloxacin hydrochloride eye drops and topotecan hydrochloride capsules. We obtained SFDA approvals for these three pharmaceutical products in May 2008, May 2008 and August 2007, respectively.

We currently own and operate a manufacturing facility in Wuxi, Jiangsu Province that is capable of producing tablets, capsules, powder and liquid, and a manufacturing facility in Nanjing, Jiangsu Province that is capable of producing liquid and capsules. As of 30 September 2009, for our nutritional supplements and general health food products, we had an annual production capacity of approximately 710 million tablets, 240 million capsules and 40 million sachets of powder and 28.8 million 250 ml bottles of liquid, based on two eight-hour shifts per day and 300 working days per year. As of 30 September 2009, for our pharmaceutical products, we had an annual production capacity of approximately 43.2 million 0.4 ml vials of ofloxacin eye drops, 144 million 5 ml bottles of ciprofloxacin hydrochloride eye drops and 500 million topotecan hydrochloride capsules based on two eight-hour shifts per day and 300 working days per year. We received GMP certification for our topotecan hydrochloride capsules in January 2008 and our ofloxacin eye drops and ciprofloxacin hydrochloride eye drops in May 2009.

**History of Ruinian Industry**

We have undergone several shareholding changes since the incorporation of Ruinian Industry. These changes were aimed at transferring the shareholding of Ruinian Industry from natural persons to legal persons at the initial stage, then converting it from a domestic company to a foreign-invested company, and subsequently financing it through the introduction of strategic investors. We believe that these changes were necessary for us to increase our scale of operations and to obtain financing. The following chart summarises the changes in the shareholding of Ruinian Industry:

<u>Date of Shareholding Change</u>	<u>Shareholders' Contribution (RMB in thousands)</u>							<u>Registered Capital (RMB in thousands)</u>
	<u>WANG Fucai</u>	<u>QIN Shifeng (秦士鳳)</u>	<u>WANG Fugui</u>	<u>YU Yan</u>	<u>Ruinian Group</u>	<u>Ruinian Hong Kong</u>	<u>Jet Bright</u>	
2 December 1997 . . . . .	1,600	400						<b>2,000</b>
23 July 2001 . . . . .	8,380		6,400	800				<b>15,580</b>
17 January 2003 . . . . .	380		100	100	15,000			<b>15,580</b>
10 June 2003 . . . . .					15,580	100,000		<b>115,580</b>
26 July 2006 . . . . .					20,220	129,780		<b>150,000</b>
22 August 2006 . . . . .							150,000	<b>150,000</b>
16 July 2007 . . . . .							190,000	<b>190,000</b>
4 February 2008 . . . . .							290,000	<b>290,000</b>
4 March 2008 . . . . .							380,000	<b>380,000</b>

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According to our PRC legal counsel, Grandall Legal Group (Shanghai), Ruinian Industry has obtained all necessary approvals from the relevant PRC authorities for each of these shareholding changes that occurred on or after 10 June 2003. For shareholding changes that occurred on 2 December 1997, 23 July 2001 and 17 January 2003, Ruinian Industry was not required to obtain any approvals from the PRC authorities because Ruinian Industry was a domestic company at the time and such changes did not involve any foreign entities.

Ruinian Industry, which was formerly known as Wuxi Sancai Industrial Co., Ltd. (無錫三才實業有限公司), was established as a domestic limited company on 2 December 1997. Since the incorporation of Ruinian Industry, it has been focusing on the development, manufacture and sale of nutritional supplements and general health food products. The shareholders of Ruinian Industry were Mr. WANG Fucui (with a contribution of RMB1.6 million in exchange for an 80% equity interest) and Ms. QIN Shifeng (秦士鳳), Mr. WANG Fucui's sister-in-law (with a contribution of RMB0.4 million in exchange for a 20% equity interest). Ruinian Industry changed its name from Wuxi Sancai Industrial Co., Ltd. to Wuxi Ruinian Industry & Commerce Co., Ltd. on 25 March 1999.

The two original shareholders of Ruinian Industry, Mr. WANG Fucui and Ms. QIN Shifeng (秦士鳳), reached an agreement on 27 June 2001, under which Ms. QIN transferred all of her shares to Mr. WANG Fucui. In addition, at the shareholders meeting on 28 June 2001, it was resolved that the registered capital of Ruinian Industry would be increased to RMB15.6 million, with Mr. WANG Fucui contributing an additional RMB6.4 million (to hold approximately 53.79% of the equity interests), Mr. WANG Fugui, Mr. WANG Fucui's brother, contributing RMB6.4 million (representing approximately 41.08% of the total equity interests) and Mr. YU Yan contributing RMB0.8 million (representing approximately 5.13% of the total equity interests), each in the form of debt for equity swaps. These changes were made to pay off shareholder debts and became effective on 23 July 2001.

Pursuant to a resolution approved by all of the shareholders on 1 December 2002, the ownership structure of Ruinian Industry was altered such that the then existing shareholders sold certain of their equity interests to Ruinian Group. After the sale, Ruinian Group, Mr. WANG Fucui, Mr. WANG Fugui and Mr. YU Yan held approximately 96.28%, 2.44%, 0.64% and 0.64% of the equity interests in Ruinian Industry, respectively. The total amount of the equity contribution remained unchanged. This reorganisation was conducted to comply with the then-current PRC laws and became effective on 17 January 2003.

Pursuant to a resolution approved by all of the shareholders on 18 March 2003, the then existing shareholders of Ruinian Industry transferred all their equity interests totalling approximately 3.72% to Ruinian Group, to streamline the corporate structure. At the same time, a new shareholder, Ruinian Hong Kong, contributed RMB100.0 million to Ruinian Industry to hold approximately 86.52% of the equity interests, resulting in Ruinian Group holding approximately 13.48% of the equity interests. With this new contribution, Ruinian Industry became a Sino-foreign equity joint venture with registered capital of RMB115.6 million. This alteration was approved by the relevant authorities in April 2003, and the articles of association were amended to effect the alteration. These alterations became effective on 10 June 2003.

Pursuant to a resolution of the board of directors on 5 June 2006, Ruinian Industry increased its registered capital to RMB150.0 million through the capitalisation of dividends payable to its then existing shareholders. As a result, Ruinian Group held approximately 13.48% of the equity interests

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and Ruinian Hong Kong held approximately 86.52% of the equity interests in Ruinian Industry. This was approved by the relevant authorities and became effective on 26 July 2006.

In August 2006, to implement the restructuring of our Group in preparation for the Global Offering, the then existing shareholders of Ruinian Industry, namely Ruinian Group and Ruinian Hong Kong, entered into an agreement with Jet Bright to transfer all of their equity interests in Ruinian Industry (approximately 13.48% for Ruinian Group and approximately 86.52% for Ruinian Hong Kong) to Jet Bright. The transfer became effective on 22 August 2006. Upon completion of such transfer, Ruinian Industry became a wholly foreign-owned enterprise with registered capital of RMB150.0 million.

Jet Bright increased its capital contribution in Ruinian Industry to RMB190.0 million in July 2007 and to RMB290.0 million in February 2008. Jet Bright further increased its contribution by RMB90.0 million in March 2008, increasing Ruinian Industry's total registered capital to RMB380.0 million.

### History of Nanjing Ruinian

Nanjing Ruinian, which was formerly known as Nanjing Ruinian Shuangke Pharmaceutical Co., Ltd. (南京瑞年雙科製藥有限公司), was established by Ruinian Group and Ruinian Hong Kong on 5 January 2004 as a foreign-invested equity joint venture company. According to the first articles of association of Nanjing Ruinian, Ruinian Group contributed US\$9.8 million (in exchange for a 49% equity interest) and Ruinian Hong Kong contributed US\$10.2 million (in exchange for a 51% equity interest) into the registered capital of Nanjing Ruinian, thus making the total registered capital of Nanjing Ruinian to US\$20 million. Nanjing Ruinian Shuangke Pharmaceutical Co., Ltd. changed its name to Nanjing Ruinian Best Pharmaceutical Co., Ltd. on 2 September 2006.

On 20 May 2005, Ruinian Group and Ruinian Hong Kong entered into an agreement, under which Ruinian Hong Kong transferred a 2% equity interest in Nanjing Ruinian to Ruinian Group. The share transfer was approved by the relevant government authorities and became effective on 31 May 2005. On 25 November 2006, Ruinian Group and Ruinian Hong Kong entered into another agreement, under which Ruinian Hong Kong transferred a 24% equity interest in Nanjing Ruinian to Ruinian Group. Such share transfer was approved by the relevant government authorities and became effective on 31 December 2006. Both transfers were made to adjust the shareholding structure of Nanjing Ruinian based on the shareholders' respective contributions to its registered capital. Ruinian Group assumed the then outstanding obligations of Ruinian Hong Kong to contribute to the registered capital of Nanjing Ruinian in proportion to the equity interest of Nanjing Ruinian acquired by Ruinian Group from Ruinian Hong Kong. In order to diversify our product portfolio and expand our business into the pharmaceutical industry in the PRC, Ruinian Industry and Jet Bright, as the purchasers, and Ruinian Group and Ruinian Hong Kong, as the sellers, entered into a share purchase agreement on 14 November 2008 (as supplemented by a supplemental agreement dated 30 September 2009), under which Ruinian Industry purchased 75% of the equity interests of Nanjing Ruinian for a consideration of RMB158.25 million and Jet Bright purchased the remaining 25% for a consideration of RMB52.75 million. The consideration for the transfer was determined through arms-length negotiations, with assistance provided by an international valuation firm, and has been fully settled, partly in cash and partly by other contractual arrangements. The share transfer was approved by the relevant government authorities and became effective on 23 July 2009. Pursuant to the supplemental agreement dated 30 September 2009, the sellers have jointly undertaken to reimburse the Group in cash as to any

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shortfall if the profit of Nanjing Ruinian is less than RMB30 million for each of the two years ending 31 December 2011. The acquisition took place after Nanjing Ruinian had obtained all relevant regulatory approvals for its three products. Therefore, although Nanjing Ruinian has not commenced large-scale production, we believe it would be economically beneficial to acquire Nanjing Ruinian at this stage.

Since its incorporation, Nanjing Ruinian's registered capital has remained unchanged at US\$20 million.

The following chart summarises the changes in the shareholding structure of Nanjing Ruinian:

<u>As of</u>	<u>Shareholders' Contributions (US\$ in thousands)</u>				<u>Registered Capital (US\$ in thousands)</u>
	<u>Ruinian Group</u>	<u>Ruinian Hong Kong</u>	<u>Ruinian Industry</u>	<u>Jet Bright</u>	
5 January 2004 .....	9,800	10,200	0	0	20,000
31 May 2005 .....	10,200	9,800	0	0	20,000
31 December 2006 .....	15,000	5,000	0	0	20,000
23 July 2009 .....	0	0	15,000	5,000	20,000

### History of Ruinian Group and Ruinian Hong Kong

Ruinian Group is a domestic company with limited liability established in the PRC on 13 December 2002. The original shareholders of Ruinian Group were Mr. WANG Fucui (with a contribution of RMB16.2 million in exchange for a 54% equity interest), Mr. WANG Fugui (with a contribution of RMB12.3 million in exchange for a 41% equity interest) and Mr. YU Yan (with a contribution of RMB1.5 million in exchange for a 5% equity interest). In order to further expand its business, Ruinian Group increased its registered capital in September 2005, and the shareholding structure of Ruinian Group was altered such that Mr. WANG Fucui, Mr. WANG Fugui and Mr. YU Yan held approximately 48.92%, 7.69% and 0.77%, respectively, of the equity interests in Ruinian Group, with the remaining equity interests held by 19 other individuals (each of whom subscribed for a portion of the additional registered capital of Ruinian Group and held no more than 7.69% of the equity interests in Ruinian Group). In preparation for the Listing, in August 2006, the shareholding structure of Ruinian Group was altered through several transfers of equity interests among the shareholders of Ruinian Group, each at a consideration representing the actual capital contribution to the registered capital of Ruinian Group by the relevant shareholder, such that Mr. WANG Fucui, Mr. YU Yan, Mr. LI Lin, Mr. ZHANG Yan, Mr. YI Lin, Mr. ZHANG Yuhai, Mr. TIAN Xinhua and Mr. SHEN Zhongwei held 67.69%, 7.38%, 7.38%, 4.15%, 5%, 2.46%, 2.23% and 3.69%, respectively, of the equity interests in Ruinian Group. In July 2008, Mr. YU Yan, Mr. LI Lin, Mr. ZHANG Yan, Mr. YI Lin, Mr. ZHANG Yuhai, Mr. TIAN Xinhua and Mr. SHEN Zhongwei, transferred all their respective equity interests held in Ruinian Group to Mr. WANG Fucui at the consideration of RMB9.6 million, RMB9.6 million, RMB5.4 million, RMB6.5 million, RMB3.2 million, RMB2.9 million and RMB4.8 million, respectively, with each amount representing the actual capital contribution made to the registered capital of Ruinian Group by the respective selling shareholders. These transfers were completed in August 2006 and July 2008 and the considerations were fully settled in cash. Upon the completion of such transfers, Ruinian Group became wholly owned by Mr. WANG Fucui, and has remained so since then.

Ruinian Hong Kong was incorporated with limited liability in Hong Kong on 11 August 2000. As at 1 December 2002, Mr. WANG Fucui, Ms. QIN Shifeng (秦士豐) and Mr. WANG Fugui held 40%, 30% and 30% of the total equity interests in Ruinian Hong Kong, respectively. On 11 November

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2004, Mr. WANG Fugui transferred 210,000 shares in Ruinian Hong Kong to Mr. WANG Fucai for a consideration of HK\$210,000, the aggregate par value of such shares. After the transfer, Mr. WANG Fucai, Ms. Qin Shifeng (秦士豐) and Mr. WANG Fugui held 61%, 30% and 9% of the equity interests in Ruinian Hong Kong, respectively. On 2 August 2006, Ms. QIN Shifeng (秦士豐) and Mr. WANG Fugui respectively transferred 300,000 shares and 90,000 shares in Ruinian Hong Kong to Mr. WANG Fucai for a consideration of HK\$300,000 and HK\$90,000, respectively, the aggregate par value of their respective shares in Ruinian Hong Kong. Since then, Ruinian Hong Kong has been wholly owned by Mr. WANG Fucai.

### History of Ruinian Sales

Ruinian Sales was established as a domestic limited company on 10 October 2001. The original shareholders of Ruinian Sales were Mr. LI Lin and Ruinian Industry, each had contributed RMB0.25 million in Ruinian Sales in exchange for its 50% equity interest.

Pursuant to a resolution approved by both of the shareholders of Ruinian Sales on 2 December 2002, Ruinian Group contributed RMB15.0 million to Ruinian Sales (in exchange for a 96.78% equity interest), while its two original shareholders maintained a contribution of RMB0.25 million each (each to hold an approximately 1.61% equity interest). With the new contribution, Ruinian Sales increased its registered capital to RMB15.5 million. These alterations became effective on 30 December 2002.

Pursuant to a resolution approved by all of the then existing shareholders of Ruinian Sales on 12 April 2004, the ownership structure of Ruinian Sales was altered such that Mr. WANG Fugui held approximately 1.61%, Mr. LI Lin held approximately 3.39% and Ruinian Group held 95.00% of the equity interests in Ruinian Sales. These alterations became effective on 10 June 2004.

Ruinian Sales underwent voluntary dissolution on 10 June 2007 pursuant to a resolution approved by all its then existing shareholders, and the dissolution was completed on 16 October 2007.

### Incorporation of Our Company

Our Company was incorporated as a limited liability company in the Cayman Islands on 30 August 2006. One Share was issued and allotted as fully paid to Codan Trust Company (Cayman) Limited, and such Share was transferred to Tongrui on 30 August 2006. On the same day, the Company issued and allotted 99 Shares credited as fully paid to Tongrui.

### Establishment of SPVs

Four SPVs were established as subsidiaries of the Company outside the PRC:

- (a) Tongrui was incorporated in the BVI with limited liability on 11 August 2006 as an investment holding vehicle. On the same day, Tongrui issued and allotted 10,000 shares of US\$0.10 each, of which 9,565 shares were issued and allotted to Furui, and 435 shares were issued and allotted to Lingrui. The entire issued share capital of Furui is owned by Mr. WANG Fucai and the entire issued share capital of Lingrui is owned by various members of the senior management of our Group, including Mr. YU Yan (approximately 22.86%), Mr. LI Lin (approximately 22.86%), Mr. YI Lin (approximately 15.48%), Mr. ZHANG Yan (approximately 12.86%), Mr. SHEN Zhongwei (approximately 11.42%), Mr. ZHANG Yuhai (approximately 7.62%) and

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Mr. TIAN Xinhua (approximately 6.90%). There has been no change in the ownership structure of Furui and Lingrui since their respective initial allotment and issue of shares.

- (b) Jet Bright was incorporated in Hong Kong with limited liability on 8 August 2006 as an investment holding vehicle. On 22 August 2006, Jet Bright issued and allotted 1 share at par value of HK\$1.00 to Tongrui.
- (c) Jierui was incorporated in the BVI with limited liability on 11 August 2006 and was acquired by Tongrui as a shelf company on 15 March 2008 for holding the Group's intellectual property rights registered in Hong Kong.
- (d) Win Success was incorporated in Hong Kong with limited liability on 20 November 2007 and was acquired by Jierui as a shelf company on 17 March 2008 for entering into a tenancy agreement in relation to our Company's place of business in Hong Kong, as well as to act as the employer for the employees of our Group in Hong Kong.

Save as disclosed above, the four SPVs have not carried out other business activities since their respective establishment.

### Investments in Our Group

#### (a) Subscription by Furui

On 17 August 2007, Furui subscribed for an additional 3,953.5 shares of US\$0.10 each in Tongrui for a total consideration of HK\$40.0 million in cash. The consideration was determined based on the following assumptions: (i) each of Raffles and Turrence would invest in our Group immediately after completion of such subscription by acquiring existing shares in Tongrui from Furui for a total consideration of HK\$238.0 million; (ii) HK\$40.0 million would be injected by Furui into our Group; and (iii) the relative percentage shareholdings in Tongrui of Furui and Lingrui before and after such subscription and sale of shares in Tongrui by Furui would not change. After such subscription, Tongrui was owned by Furui as to 13,518.5 shares (representing approximately 96.88% of the then issued share capital of Tongrui) and Lingrui as to 435 shares (representing approximately 3.12%).

#### (b) Investments by Raffles and Turrence

On 25 September 2007, Furui transferred 1,461.8 shares in Tongrui to Raffles for a total consideration of HK\$88.0 million in cash, and on 18 October 2007, Furui transferred an additional 2,491.7 shares in Tongrui to Turrence for a total consideration of HK\$150.0 million in cash. The consideration for both sales was arrived at after arms-length negotiations between Furui and each of Raffles and Turrence with reference to the financial position and future earning capacity of the Group and available financial data of other listed companies in the same industry. After completion of the above sales, Tongrui was owned by Furui as to 9,565 shares (representing approximately 68.55% of the then issued share capital of Tongrui), Lingrui as to 435 shares (representing approximately 3.12%), Raffles as to 1,461.8 shares (representing approximately 10.48%) and Turrence as to 2,491.7 shares (representing approximately 17.85%).

Assuming the Offer Price is set at HK\$3.365, being the mid-point of the indicative range of the Offer Price of HK\$2.95 to HK\$3.78 per Share, the investment cost per Share for Raffles and Turrence will be HK\$1.36 and HK\$1.36, respectively, representing a discount of approximately 59.6% and 59.6% to such Offer Price for Raffles and Turrence, respectively.

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Raffles is a limited liability company incorporated under the laws of the BVI in 2007. It is an investment vehicle investing in long-term private equity projects. The equity interests of Raffles are owned by Raffles Partners (representing approximately 35.23%), Win Direct (representing approximately 36.36%), Shanghai International Shanghai Growth Investment Limited (representing approximately 22.73%) and Conrad Enterprises Limited (representing approximately 5.68%), respectively. Raffles Partners is wholly owned by Mr. TANG Tsz Kit. Win Direct, an investment holding company owned by KWONG Chi Shing Savio, KO Kin Hang, Harmony Asset Ltd, CHOW Pok Yu Augustine and LAM Pan Nam as to approximately 25.00%, 23.44%, 23.44%, 4.68% and 23.44% of its equity interests, respectively. Shanghai International Shanghai Growth Investment Limited is a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange, and its principal business activities are investment in listed securities and direct investments in the PRC. Conrad Enterprises Limited is owned by each of CHAN Wing To and Keng Tin Enterprises Ltd. as to 50%, respectively, and its principal business activity is investment holding. Other than being a shareholder in our Group, Raffles has no connection with our Group.

Turrence is a limited liability company incorporated under the laws of the BVI on 23 August 2007. The principal business activity of Turrence is investment holding. Turrence is an indirect wholly-owned subsidiary of CK Life Sciences. Other than being a shareholder in our Group, Turrence has no connection with our Group.

### **(c) Investment by Lehman Brothers**

On 17 December 2007, Lehman Brothers subscribed for 1,133.7 new shares of US\$0.10 each in Tongrui for a total consideration of HK\$117.0 million in cash. The consideration for the subscription was arrived at after arms-length negotiations between our Group and Lehman Brothers with reference to the financial position and future earning capacity of the Group and available financial data of other listed companies in the same industry. After completion of the above subscription, Tongrui was owned by Furui as to 9,565 shares (representing approximately 63.40% of the then issued share capital of Tongrui), Lingrui as to 435 shares (representing approximately 2.88%), Raffles as to 1,461.8 shares (representing approximately 9.69%), Turrence as to 2,491.7 shares (representing approximately 16.52%) and Lehman Brothers as to 1,133.7 shares (representing approximately 7.51%).

Lehman Brothers is a limited liability company organised and existing in Hong Kong, and is a 100% indirect subsidiary of Lehman Brothers Holdings Inc., which used to be a company listed on the New York Stock Exchange and is currently in liquidation. On 12 January 2010, Lehman Brothers entered into an agreement to sell 1,133.7 shares of Tongrui to Furui for a consideration of US\$15 million, which Furui has paid in full in cash. Through negotiations, Mr. WANG Fucui agreed to satisfy Lehman Brothers' other claims under the relevant subscription agreement, and therefore, as a guarantor under the relevant subscription agreement, paid an additional HK\$17,674,932 in cash to Lehman Brothers. After the completion of this share transfer on 1 February 2010, Tongrui was owned by Furui as to 10,372.8 shares (representing approximately 61.30% of the then issued share capital of Tongrui), Lingrui as to 435 shares (representing approximately 2.57%), Raffles as to 1,461.8 shares (representing approximately 8.64%), Turrence as to 2,491.7 shares (representing approximately 14.73%), Tetrad as to 1,833 shares (representing approximately 10.83%) and CCBI as to 325.9 shares (representing approximately 1.93%).

### **(d) Investments by Tetrad and CCBI**

On 8 January 2008, Tetrad subscribed for 1,833 new shares of US\$0.10 each in Tongrui for a total consideration of HK\$195.0 million in cash. On 8 January 2008, Furui transferred 325.9 shares of

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US\$0.10 each in Tongrui to CCBI for a consideration of HK\$39.0 million. The amount of consideration for each of the subscription and the share transfer was arrived at after arms-length negotiations between Furui and CCBI, and between our Group and Tetrad, respectively, with reference to the financial position and future earning capacity of the Group and available financial data of other listed companies in the same industry. After completion of the above subscription and the share transfer, Tongrui was owned by Furui as to 9,239.1 shares (representing approximately 54.60% of the then issued share capital of Tongrui), Lingrui as to 435 shares (representing approximately 2.57%), Raffles as to 1,461.8 shares (representing approximately 8.64%), Turrence as to 2,491.7 shares (representing approximately 14.73%), Lehman Brothers as to 1,133.7 shares (representing approximately 6.70%), Tetrad as to 1,833 shares (representing approximately 10.83%) and CCBI as to 325.9 shares (representing approximately 1.93%).

Assuming the Offer Price is set at HK\$3.365, being the mid-point of the indicative range of the Offer Price of HK\$2.95 to HK\$3.78 per Share, the investment cost per Share for Tetrad and CCBI will be HK\$2.40 and HK\$2.70, respectively, representing a discount of approximately 28.7% and 19.8% to such Offer Price for Tetrad and CCBI, respectively.

Tetrad is a company incorporated in Singapore with limited liability and is an investment holding company. Tetrad is wholly owned by the Government of Singapore Investment Corporation (Ventures) Pte. Ltd. Apart from being a shareholder in our Group, Tetrad has no other connection with our Group.

CCBI is a company incorporated in Hong Kong and is principally engaged in asset management and investment businesses. The ultimate beneficial owner of CCBI is China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange. CCBI has a large number of investments including, without limitation, pre-IPO projects in the PRC and Hong Kong, as well as Hong Kong listed companies, covering such sectors as real estate, manufacturing, energy, transportation, media, retail and healthcare. Other than being a shareholder in our Group, CCBI has no connection with our Group.

The consideration received from the subscription of shares in Tongrui by Lehman Brothers was applied towards funding our sales and marketing expenses in 2008. Among the consideration received from the subscription of shares in Tongrui by Tetrad, approximately HK\$60.0 million was applied towards funding our sales and marketing expenses, and approximately HK\$135.0 million was used for purchase of inventory in 2008. The funds received by Furui from Raffles, Turrence and CCBI for their respective disposals of shares in Tongrui were for the use of Furui and its shareholder, Mr. WANG Fucai.

### **(e) Investment by Templeton**

On 22 December 2009, Templeton entered into an agreement to purchase 1,133.7 shares of Tongrui from Furui for a consideration of US\$15 million (equivalent to approximately HK\$116.5 million) in cash. The amount of consideration for the share transfer was reached after arms-length negotiations between Furui and Templeton, with reference to the financial position of our Group and available financial data of other listed companies in the same industry, and was settled in cash. After the completion of this share transfer on 1 February 2010, Tongrui was owned by Furui as to 9,239.1 shares (representing approximately 54.60% of the then issued share capital of Tongrui), Lingrui as to 435 shares (representing approximately 2.57%), Raffles as to 1,461.8 shares (representing



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approximately 8.64%), Turrence as to 2,491.7 shares (representing approximately 14.73%), Tetrad as to 1,833 shares (representing approximately 10.83%), CCBI as to 325.9 shares (representing approximately 1.93%) and Templeton as to 1,133.7 shares (representing approximately 6.70%).

Assuming the Offer Price is set at HK\$3.365, being the mid-point of the indicative range of the Offer Price of HK\$2.95 to HK\$3.78 per Share, the investment cost per Share for Templeton will be HK\$2.32, representing a discount of approximately 31.1% to such Offer Price.

### Rights of Investors

Each of Raffles, Turrence and CCBI had the right to require Furui to transfer additional shares of Tongrui to each of them if the audited consolidated net profit after taxation of our Group for the financial year ended 31 December 2007 (“2007 NPAT”) was less than HK\$120.0 million. The number of additional shares of Tongrui to be transferred to each such investor is calculated as follows:

$$\frac{b - a}{a} \times c$$

where a is the actual 2007 NPAT, b is HK\$120.0 million and c is the number of shares of Tongrui held by such investor on the date of completion of its investment in our Group.

In addition, Tetrad had the right to require Tongrui to issue and allot additional shares if the 2007 NPAT was less than HK\$120.0 million. The number of additional shares of Tongrui to be issued and allotted to Tetrad would have been calculated according to the above formula.

However, since the 2007 NPAT was approximately HK\$135.2 million, no additional shares of Tongrui were or are required to be transferred by Furui or to be issued and allotted by Tongrui to any of Raffles, Turrence, Tetrad or CCBI.

Under the shareholders agreement between Tongrui and its shareholders, in the event that any shareholder of Tongrui is in liquidation or being wound up or under similar proceedings, the other shareholders of Tongrui may serve a default notice to require the defaulting shareholder to sell all its shares in Tongrui to the other shareholders, in proportion to their respective shareholdings in Tongrui, at a price equal to the audited consolidated net book value of the Group in the previous quarter attributable to such percentage shareholding in Tongrui (“Compulsory Purchase Right”).

If a QIPO did not take place by 31 December 2008, each of Raffles and CCBI had the right to require either Mr. WANG Fucui or Furui to purchase all shares of Tongrui held by Raffles or CCBI at a consideration equal to their respective investments in our Group plus accrued interest thereon calculated at the prime rate as quoted by HSBC from time to time. Such right was exercisable within three months after 31 December 2008. On 13 March 2009, CCBI exercised its right to require Mr. WANG Fucui to purchase all shares of Tongrui held by CCBI. However, each of Raffles and CCBI has subsequently agreed not to exercise its right until 30 June 2010 in the event that a QIPO does not take place by such date, provided that the interest accruing on their respective investments in our Group will be adjusted to 15% per annum from the date of their respective investments in our Group.

If (i) a QIPO did not take place within 24 months after 8 January 2008; or (ii) any investor exercised its right to require Mr. WANG Fucui or Furui to purchase all shares of Tongrui held by such investor, then Tetrad had the right to require Mr. WANG Fucui or Furui to purchase all shares of

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Tongrui held by Tetrads at a consideration equal to the amount invested by it in our Group plus accrued interest thereon calculated at 12% per annum. Such right was exercisable within three months after the date of fulfilment of any of the conditions (i) or (ii) set out above. Tetrads has agreed not to exercise its right until 30 June 2010 if a QIPO does not take place by such date, provided that the interest accruing on its investment in our Group will be adjusted to 15% per annum from the date of its investment in our Group.

Such right relating to a QIPO is not available to Turrencc.

If a QIPO does not take place on or before 30 June 2010, then Templeton has the right to require Mr. WANG Fucui or Furui to purchase all shares of Tongrui held by Templeton at a consideration equal to the amount invested by it in our Group plus accrued interest thereon calculated at 12% per annum. Such right may be exercised within three months after 30 June 2010.

In addition, each of Raffles, Turrencc, Templeton and Tetrads has the right to nominate one director to the board of directors of Tongrui. Prior approvals of all directors of Tongrui are required for certain matters of the Group, such as amendment to the memorandum or articles of association, creation, allotment or issue of shares, consolidation, sub-division or conversion of share capital, passing of resolutions for winding-up or liquidation, making any material change in the nature of business, and entering into any partnership or joint venture arrangement outside the ordinary course of business (“Unanimous Approved Matters”). CCBI also has the right to nominate one observer and to obtain information such as financial statements, forecasts and budgets, notices, minutes and other business and financial data of any company of the Group.

Furthermore, in the event that Tongrui or the Company proceeds with a fund raising or financing with terms and conditions that are more favourable in any aspect than the terms upon which Tetrads became a shareholder of Tongrui, each of the investors will be entitled to receive such favourable terms.

No preferential treatment or other special rights are given to any of the investors, and all the above rights for each of the investors shall lapse upon Listing.

There is no lock-up arrangement for any of Raffles, Turrencc, Templeton, Tetrads and CCBI pursuant to the respective agreements we entered into with them, but each of such investors will be subject to a six-month lock-up period after Listing with respect to any Shares held by it. The Shares held by Turrencc, Raffles, Templeton, Tetrads and CCBI will be counted as part of the public float because each of them is solely a financial investor to the Group and is independent from the Group, the Controlling Shareholders and our other financial investors. None of Turrencc, Raffles, Templeton, Tetrads and CCBI will hold more than 10% of the issued share capital of our Company upon Listing.

### **Dispute among Mr. WANG Fucui, Furui, Raffles and Lehman Brothers**

On 9 February 2009, Lehman Brothers exercised the right to require Furui and Mr. WANG Fucui to purchase all the 1,133.7 shares of Tongrui held by it at a price of HK\$117.0 million plus interest at a rate of 12% per annum accrued since 17 December 2007, when Lehman Brothers became a shareholder of Tongrui. On 14 October 2009, Lehman Brothers issued a statutory demand against Mr. WANG Fucui for an amount of HK\$133,924,932.00. If a final judgment had been entered in favour of Lehman Brothers, Furui would have had to purchase all of Tongrui’s shares held by Lehman Brothers. As a result, Mr. WANG Fucui’s total beneficial ownership in our Company would have

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## HISTORY AND REORGANISATION

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increased to 61.3% (assuming the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme are not exercised).

On 30 October 2009, Raffles issued a written notice to Lehman Brothers to exercise Raffles' Compulsory Purchase Right to purchase all shares of Tongrui held by Lehman Brothers, requesting Lehman Brothers not to proceed with the sale of the shares in Tongrui to Mr. WANG Fucui, and notifying Lehman Brothers of Raffles' intention to apply for an injunction if Lehman Brothers and Furui proceed with such transfer of shares in Tongrui. The shareholders agreement among Tongrui and its shareholders does not set any time limit for issuing such notice to exercise the Compulsory Purchase Right. In order to consummate the transfer of shares in Tongrui with Lehman Brothers, Raffles would have had to pay approximately RMB47,938,567 under the relevant shareholders agreement and based on the audited consolidated net assets of Tongrui as of 30 September 2009.

On 2 November 2009, Mr. WANG Fucui made an application to the High Court of Hong Kong to set aside the statutory demand from Lehman Brothers dated 14 October 2009.

Furui and Mr. WANG Fucui sought a legal opinion from a Senior Counsel of the HKSAR relating to the Dispute. The Senior Counsel expressed the view that Furui had reasonable grounds to dispute Lehman Brothers' request to exercise its right to sell the shares in Tongrui to Furui and to set aside the statutory demand issued by Lehman Brothers against Mr. WANG Fucui dated 14 October 2009.

However, this matter has since been settled as described below:

- On 22 December 2009, Mr. WANG Fucui and Furui entered into an agreement with Templeton, under which Templeton agreed to purchase 1,133.7 shares of Tongrui from Furui for a consideration of US\$15 million in cash on the condition, among others, that all of Lehman Brothers, Mr. WANG Fucui and Furui have entered into an unconditional final settlement.
- On 12 January 2010, Lehman Brothers, Mr. WANG Fucui and Furui reached final settlement with respect to the Dispute and entered into a sale agreement whereby Lehman Brothers agreed to transfer 1,133.7 shares of Tongrui held by Lehman Brothers to Furui for a consideration of US\$15 million. In addition, Mr. WANG Fucui paid HK\$17,674,932 to Lehman Brothers. The other shareholders of Tongrui have approved the transfer under the sale agreement.
- Both the transfer of 1,133.7 shares in Tongrui from Furui to Templeton and the transfer of 1,133.7 shares in Tongrui from Lehman Brothers to Furui took place and completed on 1 February 2010. Mr. WANG Fucui and Lehman Brothers jointly submitted a consent application on 2 February 2010 to set aside the statutory demand against Mr. WANG Fucui filed by Lehman Brothers.

Pursuant to the sale agreement, with effect from completion of the share transfer on 1 February 2010, each of Lehman Brothers, Mr. WANG Fucui and Furui ceased to have any further claims against each other and Tongrui under the shareholders agreement among Tongrui and its shareholders and the subscription agreement between Lehman Brothers, Tongrui, Mr. WANG Fucui and Furui.

### **Loans Obtained by Furui**

Furui obtained a loan from SHKF of US\$5 million, a loan from Sharp Gain of US\$2 million and a loan from RPI of US\$1.5 million. All these loans are unsecured loans with a term of one year at an interest rate of 12% per annum payable on maturity. If the Listing occurs before 30 June 2010, all such loans are repayable on 5 November 2010. If the Listing has not occurred by 30 June 2010, each of SHKF, Sharp Gain and RPI may require repayment of the loans at any time after 30 June 2010. Furui advanced all the loans in an aggregate amount of US\$8.5 million from SHKF, Sharp Gain and RPI to Tongrui as an interest-free shareholder loan to settle the fees and expenses of the professional parties in connection with the Listing and to provide additional working capital to our Group. All the loans from SHKF, Sharp Gain and RPI are expected to be repaid in cash by Furui by procuring full repayment of the interest-free shareholder loan from Tongrui before the Listing.

To observe the covenants given by Furui and Mr. WANG Fucui, including the prior approval from each of SHKF, Sharp Gain and RPI on certain matters of the Group, each of SHKF, Sharp Gain and RPI has been granted the right to nominate one observer on the board of directors of Tongrui and to review meeting minutes, written resolutions and all other documents relating to the business and affairs of Tongrui. Such rights will expire upon the Listing. Other than the rights of the lenders disclosed in this prospectus, no other special rights have been granted to SHKF, Sharp Gain and RPI. Except for the call options relating to the Shares and the creditors' rights relating to the loans, all other rights of the lenders will terminate on the Listing Date.

SHKF is wholly owned by Sun Hung Kai & Co. Limited, a company incorporated in Hong Kong with limited liability, and the shares of which are listed on the Main Board of the Stock Exchange. The principal activities of SHKF are the provision of loan financing and investment holding.

Sharp Gain is owned by CHEONG Jose Vai Chi and CHEUNG Po Lam, each as to 50%, both of whom are Independent Third Parties. The principal business activity of Sharp Gain is investment holding.

RPI is owned by TSE Ling Ling as to 40%, CHEUNG Kang Tong Bruce as to approximately 33.3% and Best Score Holdings Limited as to approximately 26.7%. All the shareholders of RPI are Independent Third Parties. The principal business activity of RPI is investment holding.

Each of SHKF, Sharp Gain and RPI is an Independent Third Party.

### **Call Option Granted by Furui**

Under the strategy framework agreement among Mr. WANG Fucui, Furui and Wuxi Jinyuan dated 24 October 2009, Wuxi Jinyuan agreed to provide a loan in Renminbi amounting to US\$10.0 million to Mr. WANG Fucui for a term of one year, with a fixed interest rate of 12% per annum. In exchange for the loan provided by Wuxi Jinyuan, Furui agreed to grant an overseas affiliate of Wuxi Jinyuan an option to purchase from Furui up to 1.7% of the issued share capital of our Company as of the Listing Date (excluding Shares issued upon exercise of the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme) six months after the Listing at HK\$0.01 per Share. If Wuxi Jinyuan nominates its overseas affiliate and that affiliate agrees to enter into a formal agreement with Furui regarding the aforesaid option, then upon exercise of all such options, the maximum number of Shares to be held by such overseas affiliate of Wuxi Jinyuan will be 17,000,000 Shares and such

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## HISTORY AND REORGANISATION

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Shares will be counted as part of the public float as the lender is a financial investor to our Group and an Independent Third Party. The exercise of the call option by Wuxi Jinyuan will not reduce the outstanding amount of the loan. The agreement among Wuxi Jinyuan, Furui and Mr. WANG Fucui does not specify the expiry date of the call option or consequences for non-occurrence of the Listing by a certain date. Upon exercise of the option, the Shares held by the overseas affiliate of Wuxi Jinyuan are not subject to any lock-up arrangement.

Wuxi Jinyuan is owned by Wuxi Binhu District Supply and Marketing Cooperative General Agency (無錫市濱湖區供銷合作總社) as to 20% and Wuxi Binhu District Economic Development Corporation Commission (無錫市濱湖區經濟發展總公司管理委員會) as to 80%, both of which are Independent Third Parties and are state-owned entities. Wuxi Jinyuan's principal activities are investment and asset management.

On 5 November 2009, in order to fulfil a condition under the loans of US\$8.5 million collectively provided by SHKF, Sharp Gain and RPI, Furui entered into a call option deed with each of SHKF, Sharp Gain and RPI, under which each of SHKF, Sharp Gain and RPI was granted a right to purchase from Furui a certain number of the Shares, at HK\$0.01 per Share, and shares of Tongrui, at HK\$0.01 per share. As the consideration for the purchase right, each of SHKF, Sharp Gain and RPI paid HK\$1.00 to Furui.

Each of SHKF, Sharp Gain and RPI may exercise the purchase right in relation to the Shares at any time during the period commencing from the expiry of the six months after the Listing Date and up to the date thirty months from the Listing Date. If SHKF, Sharp Gain or RPI exercises its right to purchase the Shares, the maximum number of Shares to be held by SHKF, Sharp Gain and RPI will represent 0.60%, 0.24% and 0.18%, respectively, of the issued share capital of our Company as of the Listing Date (assuming the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme are not exercised), which are 6,000,000, 2,400,000 and 1,800,000 Shares, respectively. Upon exercise of the options, the Shares held by the lenders are not subject to any lock-up arrangement. Once a lender exercises its call option and acquires the Shares, such Shares will be counted as part of the public float as each lender is a financial investor to our Group and an Independent Third Party.

If the Listing does not occur by 5 November 2010, each of SHKF, Sharp Gain and RPI may, subject to prior written approval of the shareholders of Tongrui, exercise the purchase right in relation to the shares of Tongrui at any time during a three-year period commencing on 5 November 2010. If SHKF, Sharp Gain or RPI exercises its right to purchase the shares of Tongrui, the maximum number of the shares of Tongrui to be held by SHKF, Sharp Gain and RPI will represent 0.75%, 0.30% and 0.225%, respectively, of the issued share capital of Tongrui. The exercise of call options by any of SHKF, Sharp Gain and RPI will not reduce the amount of the relevant loan owed by Furui. The lenders are not allowed to exercise the call option until six months after the Listing Date.

### Reorganisation

In preparation for the Global Offering, on 1 February 2010, the authorised share capital of the Company was increased from HK\$350,000 to HK\$20,000,000 by the creation of an additional 1,965,000,000 Shares.

Pursuant to the Reorganisation Agreement, on 1 February 2010, our Company acquired the entire issued share capital of Tongrui from its then existing shareholders, and Tongrui became a

## HISTORY AND REORGANISATION

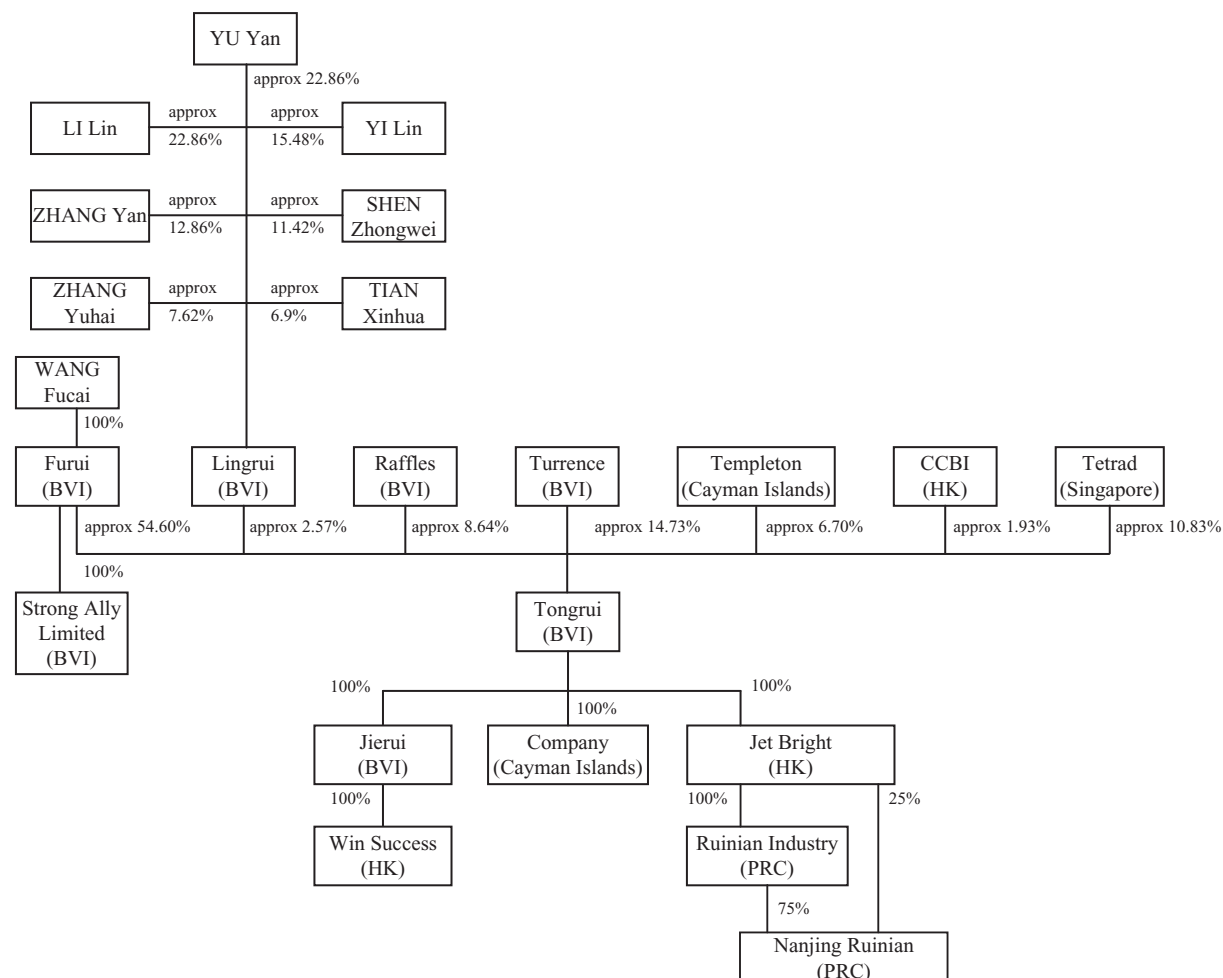
member of our Group. In consideration for the aforesaid acquisition, our Company issued and allotted a total of 749,999,900 new Shares to the then shareholders of Tongrui and 100 Shares were transferred from Tongrui to Furui. Furui then transferred 20,000,000 Shares to Strong Ally Limited.

As part of the Reorganisation, Furui provided an interest-free loan of US\$8.5 million to Tongrui. The loan is repayable on demand by Furui at any time but in any event by the Listing Date. Our Group will repay this loan immediately before the Listing in cash.

On completion of the Reorganisation but immediately prior to the completion of the Global Offering, the Company had in issue a total of 750,000,000 Shares, of which Furui owned 389,529,734 Shares (representing approximately 51.94% of the issued share capital of the Company), Strong Ally Limited owned 20,000,000 Shares (representing approximately 2.66%), Lingrui owned 19,281,687 Shares (representing approximately 2.57%), Raffles owned 64,795,333 Shares (representing approximately 8.64%), Turrence owned 110,446,390 Shares (representing approximately 14.73%), Templeton owned 50,252,065 Shares (representing approximately 6.70%), Tetrad owned 81,249,040 Shares (representing approximately 10.83%) and CCBI owned 14,445,751 Shares (representing approximately 1.93%).

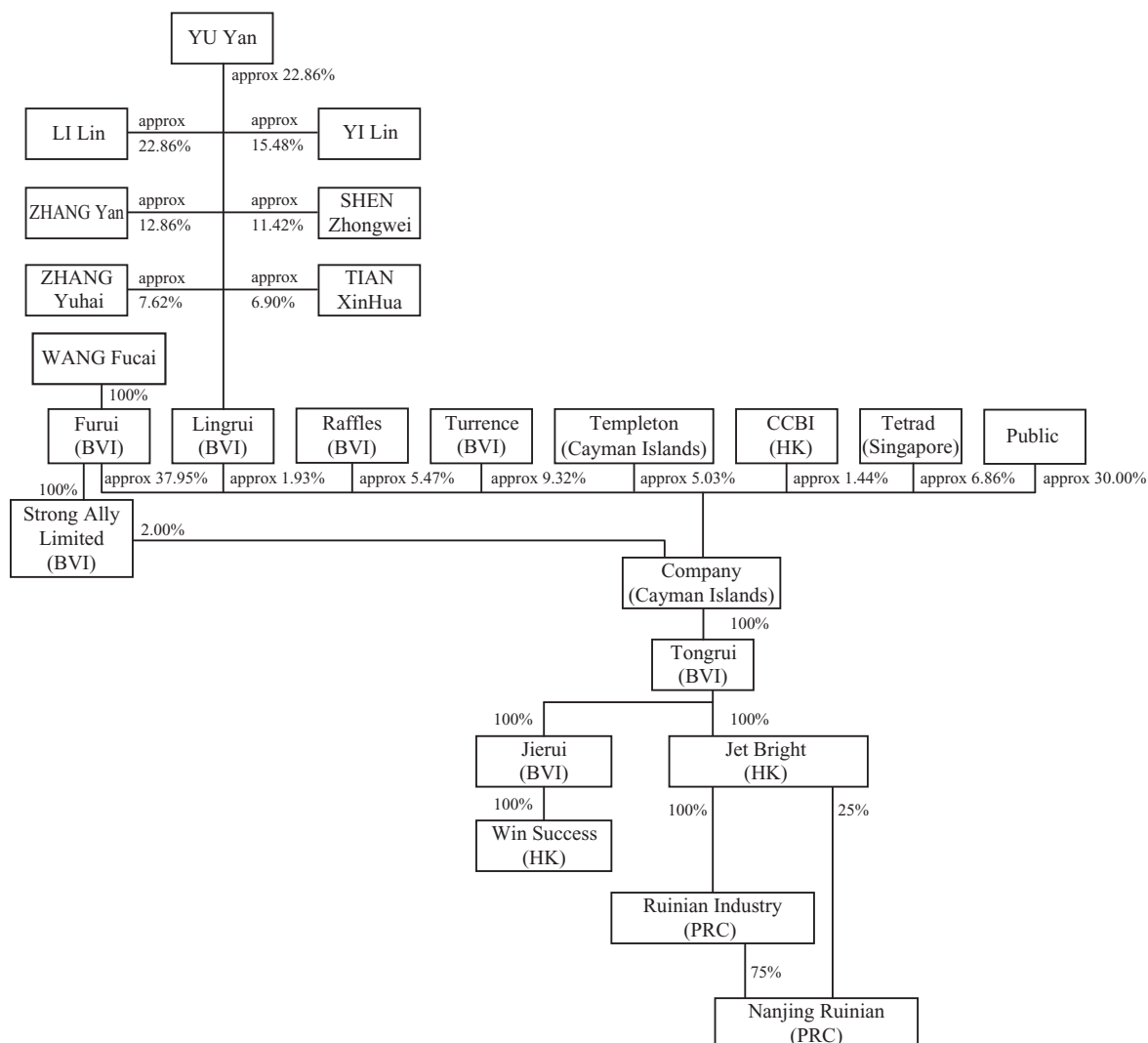
### SHAREHOLDING AND GROUP STRUCTURE

The following chart illustrates the shareholding structure and the corporate structure of the Group immediately before the Reorganisation.



## HISTORY AND REORGANISATION

The following chart illustrates the shareholding structure and the corporate structure of the Group following completion of the Reorganisation and the Global Offering (assuming the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme are not exercised).



## TRANSFERS TO EMPLOYEES

In addition to the options granted by us under the Pre-IPO Share Option Scheme, which carry the rights to subscribe for 20,000,000 Shares and represent 2% of the issued share capital of our Company as of the Listing Date (assuming the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme are not exercised) as of Latest Practicable Date, Strong Ally Limited (a special purpose vehicle incorporated in the BVI and wholly owned by Furui) agreed to grant, subject to the Listing, a right to purchase from it an aggregate of 20,000,000 Shares, representing 2% of the issued share capital of our Company as of the Listing Date (assuming the Over-allotment Option and the options granted by us under the Pre-IPO Share Option Scheme are not exercised) to 104 participants comprising employees of our Group and other selected individuals who have made contributions to our Group. Strong Ally Limited was set up to help Furui administer its Pre-IPO Share Option Scheme and the purpose of such arrangement is to reward and motivate our employees. During the period between the expiry date of six months after the Listing Date and the expiry date of three years after the Listing Date (the “Pre-IPO Share Option Period”), one-third of the options granted

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## HISTORY AND REORGANISATION

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under the Pre-IPO Share Option Scheme may be exercised; and 1/36<sup>th</sup> of the options granted under the Pre-IPO Share Option Scheme may be exercised at the end of each calendar month beginning 12 months after the Listing Date until the expiry date of the Pre-IPO Share Option Period in 24 tranches. Strong Ally Limited has the right to continue to own the remaining Shares if any option granted by it lapses.

The first vesting date of these rights is six months after the Listing Date. Accordingly, any transfers pursuant to these rights will only occur after the mandatory lock-up period to which Strong Ally Limited may be subject pursuant to Listing Rule 10.07(1)(a). The options granted under the Pre-IPO Share Option Scheme shall lapse on the date when a grantee ceases to be a qualified participant. See the section headed “Other Information — Pre-IPO Share Option Scheme” in Appendix VIII to this prospectus for details.