中國新材控股有限公司
China New Materials Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1887

GLOBAL OFFERING

Joint Sponsors

建银国际 CCB International

Piper Jaffray

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

建银国际 CCB International

Piper Jaffray

MACQUARIE

IMPORTANT

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

CHINA NEW MATERIALS HOLDINGS LIMITED
中國新材控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**292,500,000 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**29,250,000 Shares (subject to adjustment)**
Number of International Offer Shares	**:**	**263,250,000 Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price	**:**	**HK$3.33 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)**
Nominal Value	**:**	**HK$0.01 per Share**
Stock Code	**:**	**1887**

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建银国际 CCB International

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Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

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MACQUARIE

Co-Managers

China Everbright Securities (HK) Limited

Guotai Junan Securities (Hong Kong) Limited

Kingston Securities Limited

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

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents in this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement with the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date, which is expected to be on or around December 3, 2010 and, in any event, not later than December 10, 2010. The Offer Price will be not more than HK$3.33 per Offer Share and is currently expected to be not less than HK$2.33 per Offer Share. If, for any reason, the Offer Price is not agreed by 5:00 p.m. on December 10, 2010 by the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not become unconditional and will lapse.

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

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. If applications for the Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. More details are set out in the section headed "Structure of the Global Offering" in this prospectus.

Pursuant to certain provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Joint Global Coordinators (on behalf of the Underwriters) have the right in certain circumstances, in their absolute discretion, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the day on which dealings in the Shares first commence on The Stock Exchange of Hong Kong Limited. Further details of the terms of such provisions are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

November 30, 2010

If there is any change in the following expected timetable[1] of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times.

Application lists open[2] . . . . . 11:45 a.m. on December 3, 2010

Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC[3] . . . . . 12:00 noon on December 3, 2010

Latest time to complete electronic applications under the White Form eIPO service through the designated website www.eipo.com.hk[4] . . . . . 11:30 a.m. on December 3, 2010

Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . . 12:00 noon on December 3, 2010

Application lists close[2] . . . . . 12:00 noon on December 3, 2010

Expected Price Determination Date[5] . . . . . December 3, 2010

(1): Announcement of the Offer Price, the level of applications of the Hong Kong Public Offering, the level of indication of interest in the International Offering, and the basis of allotment of Hong Kong Offer Shares under the Hong Kong Public Offering to be published on the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before . . . . . December 10, 2010

(2): Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see paragraph headed "Publication of results" under the section headed "How to apply for Hong Kong Offer Shares" in this prospectus) from . . . . . December 10, 2010

A full announcement of the Hong Kong Public Offering containing the information in (1) and (2) above will be published on the website of the Hong Kong Stock Exchange at www.hkex.com.hk and our Company's website at www.china-newmaterials.com.hk . . . . . December 10, 2010

Dispatch of share certificates/White Form e-Refund payment instructions/refund cheques in respect of wholly successful and wholly or partially unsuccessful applications, pursuant to the Hong Kong Public Offering on or before[6] . . . . . December 10, 2010

Dealings in Shares on the Hong Kong Stock Exchange expected to commence at 9:30 a.m. on . . . . . December 13, 2010

Uncollected share certificates and/or refund cheques (if any) will be dispatched by ordinary post at the applicants' own risk to the addresses specified in the Application Forms promptly after the expiry of the time for their collection. Further information is set out in paragraph headed "Dispatch/collection of share certificates and refund of application monies" under the section headed "How to apply for Hong Kong Offer Shares" in this prospectus.

1 Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

2 If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on December 3, 2010, the application lists will not open and close on that day. Further information is set out in the paragraph headed "Effect of bad weather on the opening of the application lists" under the section headed "How to apply for Hong Kong Offer Shares" in this prospectus. If the application lists do not open and close on December 3, 2010, the dates mentioned in this section headed "Expected timetable" may be affected. A press announcement will be made by us in such event.

3 Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed "Applying by giving electronic application instructions to HKSCC" under the section headed "How to apply for Hong Kong Offer Shares" in this prospectus.

4 You will not be permitted to submit your application to the White Form eIPO service provider through the designated website www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12.00 noon on the last day for submitting applications, when the application lists close.

5 The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date, which is expected to be on or around December 3, 2010 and, in any event, not later than December 10, 2010. The Offer Price will be not more than HK$3.33 per Offer Share and is currently expected to be not less than HK$2.33 per Offer Share. If, for any reason, the Offer Price is not agreed by 5:00 p.m. on December 10, 2010 by the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse. Notwithstanding that the Offer Price may be fixed at a price below the maximum Offer Price of HK$3.33 per Hong Kong Offer Share, applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$3.33 for each Hong Kong Offer Share, together with brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies (if any) as provided in the paragraph headed "Dispatch/collection of share certificates and refund of application monies" under the section headed" How to apply for Hong Kong Offer Shares" in this prospectus.

6 **Our Company will not issue any temporary document of title in respect of the Offer Shares. Share certificates for the Hong Kong Offer Shares will only become valid certificates of title at 8:00 a.m. on December 13, 2010, provided that (i) the Global Offering has become unconditional in all respects, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.** e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications, and also in respect of wholly or partially successful applications if the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.

Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques and share certificates in person may do so from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on December 10, 2010 or any other date notified by our Company in the newspaper as the date of dispatch of share certificates/e-Refund payment instructions/refund cheques. Individual applicants who opt for personal collection must not authorize any other person to make their collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorized representatives, each bearing a letter of authorization from such corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms for Hong Kong Offer Shares is the same as that for applicants who apply on **WHITE** Application Forms for Hong Kong Offer Shares.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed "Applying by giving electronic application instructions to HKSCC" under the section headed "How to apply for Hong Kong Offer Shares" in this prospectus for details.

If you have applied for less than 1,000,000 Hong Kong Offer Shares or have applied for 1,000,000 Hong Kong Offer Shares or more but have not indicated in the Application Form that you wish to collect share certificate(s) and/or refund cheque in person, your share certificate(s) and/or refund cheque will be dispatched by ordinary post at your own risk to the address specified on the Application Form.

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

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

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

Various expressions used in this summary are defined in the sections headed "Definitions" and "Glossary of technical terms" in this prospectus.

OVERVIEW

We were the second largest BDO producer in China in terms of domestic sales volume in 2009 with a market share of approximately 16.0%, according to the Huajing Report prepared by Beijing Huajing, an independent economic information research institution. We also produce GBL and THF, which are immediate downstream derivative products of BDO. We ranked fifth in China in terms of total designed BDO production capacity in 2009, according to the Huajing Report.

In view of China's growing market for biodegradable materials and leveraging on our existing expertise in BDO production, we intend to expand downstream into BDO-based biodegradable PBS and PBS copolymers production and apply approximately 10% of the net proceeds from the Global Offering to construct the first phase of our PBS production facilities. Please refer to the paragraph headed "Our strategies" under the section headed "Business" in this prospectus for further details. PBS and PBS copolymers are relatively new materials in China and our Group has no historical track record in their production. While we are confident of our PBS expansion plan, there is no assurance that we will be able to produce PBS and PBS copolymers on a commercial scale or at all. (Please also refer to the section headed "Risk factors" in this prospectus).

BDO, our primary product, is an essential chemical intermediate used in the production of high performance polymers, solvents and fine chemicals, which are widely used in the automotive, electronics, construction and apparel industries. GBL has a wide range of applications, including cosmetics, hair sprays, germicides, tablet binders and as process aids in beverage clarification. THF is mainly used as a precursor to polymers and is often used to produce PTMEG, which in turn is a reactant for making other polymers.

During the Track Record Period, we sold our BDO, GBL and THF products principally to PRC manufacturers of different industries such as chemicals, pharmaceutical and industrial electronics, which are primarily located in the Eastern region of China. We believe this direct sales model, compared to a distributorship sales model, allows us to obtain first-hand market information directly from these customers and helps us to build long-term and close customer relationships. During the Track Record Period, we did not sell our BDO, GBL and THF products to any manufacturer of PBS or PBS copolymers. Additionally, we have neither directly exported our products nor, to our knowledge, have we sold our products to customers who in turn re-sell and export our products without further processing.

We are the first among the current BDO producers in China to employ the DAVY Process, according to the Huajing Report. The DAVY Process, which uses maleic anhydride as the principal raw material, is more advanced and cost efficient than the traditional REPPE Process, which uses acetylene and formaldehyde as the principal raw material. The DAVY Process allows us to produce high-graded BDO with a higher purity level than the national standard typically required by the PRC industry standard and generally adhered by BDO manufacturers adopting the REPPE Process. The DAVY Process also co-produces GBL and THF, two of our major products, and allows us to adjust the mix among our three products to enhance the flexibility in fulfilling customers' orders.

Our current production facilities are located in Dongying, Shandong province, close to our raw material suppliers and most of our major customers. In particular, our current production facilities are adjacent to Sinopec Shengli Oilfield Branch Petrochemical Factory* (中國石化勝利油田分公司石油化工總廠) ("**Sinopec Shengli**"), China's second largest oil field complex, which supplies to us raw materials including hydrogen and n-butane through pipelines. Our proximity to and long-term relationship with Sinopec Shengli provide us with a convenient supply of principal raw materials and a cost advantage over many of our foreign and domestic competitors. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, our purchases from Sinopec Shengli accounted for approximately 11.3%, 9.9%, 12.7% and 32.3% of our total purchases, respectively. As at the Latest Practicable Date, our Dongying BDO production facility had a designed BDO production capacity of approximately 35,000 tpa, a designed GBL production capacity of approximately 17,000 tpa and a designed THF production capacity of approximately 5,000 tpa.

We derive substantially all of our revenue from sales of BDO, GBL and THF. Our revenue was approximately RMB882.7 million, RMB883.3 million, RMB745.4 million and RMB383.9 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. Our net profit was approximately RMB146.1 million, RMB133.9 million, RMB172.1 million and RMB96.9 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Our principal business development strategy is to leverage our BDO production capabilities and expand into China's growing biodegradable materials market. Since 2008, we have devoted substantial resources to exploring the market and the commercialization potential of BDO-based biodegradable PBS and PBS copolymer products. PBS and PBS copolymers are fully biodegradable macromolecular polymers that are synthesized from succinic acid/binary acid and BDO through a process of condensation polymerization. Due to the comparatively superior characteristics in mechanical properties, processability and heat resistance over other types of biodegradable polymers, PBS and PBS copolymers can be used in a wide range of applications, such as packaging materials, food containers, mulch film, packaging films, bags, disposable medical devices, hygiene products and textiles. In this connection, we entered into a letter of intent with IPCCAS in July 2009 for the licensing of its patented IPCCAS Direct Polycondensation Process to construct a 20,000 tpa PBS production facility, as well as setting up a joint research laboratory to research into new PBS formulations and potential applications. Subsequently in December 2009, we entered into a formal technology licensing agreement with IPCCAS (which was

supplemented by a supplemental licensing agreement dated October 29, 2010), under which we were granted a non-exclusive license (which is one-off in nature with no time limit) to use the relevant PBS resin polymerization technologies in our PBS production facilities and a 500-liter PBS laboratory facility adopting the IPCCAS Direct Polycondensation Process. In May 2010, we further entered into a technology cooperation agreement with Sichuan University for an initial period of five years to collaborate into areas including (without limitation) PBS downstream product development, production technology support and research staff training. Since then, we have established a PBS research team in Zibo of Shandong province collaborating with IPCCAS and the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University. We are close to completing the construction of a 500-liter PBS laboratory facility which would be used for testing formulations for and trial production of various types of PBS and PBS copolymer downstream products. The PBS laboratory facility is scheduled to be completed by end of November 2010 and put into operation by December 2010.

In accordance with our expansion plan, we have already commenced construction of a new production base, which is situated on a parcel of land with a site area of approximately 229,655 square meters in the New-Hi Tech Industrial Development Zone of Zibo, Shandong province. To this end, construction of two PBS production lines in this new Zibo production base with designed production capacity of 5,000 tpa and 20,000 tpa, being the first phase of our three-phase PBS production capacity expansion plan, is currently under way and is scheduled to be completed by June 2011 and September 2011, respectively. As at the Latest Practicable Date, we had entered into non-legally binding letters of intent, valid up to December 31, 2013, with several Independent Third Party PRC manufacturers of medical supplies, packaging and hygienic disposables for intended PBS and PBS copolymers orders totaling over 17,000 tons per annum.

Depending on the then market response to our PBS and PBS copolymer products from our first phase of PBS production facility, we intend to commence construction of a further 50,000 tpa PBS production facility in or around early 2012. According to our preliminary construction schedule, this 50,000 tpa, second phase PBS production facility shall take about eight months to construct. Depending on the then utilization of our first and second phase of PBS production facilities, we may commence construction of a third phase PBS production facility with a designed production capacity of 50,000 tpa as early as in 2013.

To support our planned expansion into the production of PBS and PBS copolymers which are currently in our product development pipeline, and to serve the growing demand for high-graded BDO and its derivative products in China, we plan to expand our BDO production capacity significantly by constructing a new 55,000 tpa BDO production facility, to be housed alongside our planned PBS production facilities, in our new Zibo production base. This new BDO production facility, which is under construction and is currently scheduled to be completed by June 2011, will employ the newest, fourth-generation DAVY Process with designed BDO, GBL and THF production capacity of approximately 46,800 tpa, 6,600 tpa and 1,600 tpa, respectively.

In addition to the above core production facilities, our Zibo production base will also house various ancillary facilities such as office buildings, staff canteen, warehouses and a waste water treatment facility.

We believe that our expanded BDO production capacity would enable us to enjoy greater flexibility in adjusting our production and sales mix to meet market demands, while controlling our costs through internal BDO consumption and external BDO sales. It is our intention that upon commencement of our PBS and PBS copolymers production, we will prioritize the use of our BDO produced by first satisfying our internal production requirement of PBS and PBS copolymers. According to our research and development progress to date, it is estimated that the consumption ratio of BDO in PBS production should be around 0.4-0.5 ton of BDO for each ton of PBS and/or PBS copolymers. On such basis, depending on the then prevailing demand for our PBS and PBS copolymer products, we expect our internal BDO consumption will increase as a percentage of our total BDO production as we expand our PBS production capacity in accordance with our expansion plan. (For purpose of illustration, if all three phases of our PBS production facilities are operating at full capacity, then based on the currently estimated consumption ratio of BDO to PBS, around half of the aggregate designed production capacity of our two BDO production facilities (inclusive of BDO, GBL and THF) will be utilized for producing internally-consumed BDO, while the remaining production capacity will be utilized for producing BDO, GBL and THF for external sales to the market.) We also expect our revenue from PBS and PBS copolymer products will increase both in absolute terms and as a percentage of our total revenue in the future when our PBS expansion plan is successfully implemented.

We believe that our expanded BDO production capacity will help to support the future growth of our PBS and PBS copolymer production and at the same time solidify our leading position in China's BDO and derivative products market.

On the basis of the information available to us so far (including contracts, agreements and contractor estimates so far provided) and based on due assessments by our senior management, it is currently estimated that total capital expenditure for completion of our Zibo production base (including construction of three phases of the PBS production facilities and the new BDO production facility and inclusive of technology licensing fees, land use rights and other ancillary construction work) shall amount to approximately RMB1.42 billion (equivalent to approximately HK$1.66 billion), of which approximately RMB274 million (equivalent to approximately HK$321 million) have been incurred as at October 31, 2010 funded by internally generated funds, bank borrowings and funds from pre-IPO investments injected as registered capital. The following table summarizes the development plan and capital expenditure schedule in connection with our Zibo production base:

	Designed Production Capacity *(tpa)*	(Expected) commencement time	(Expected) completion time	(Estimated) Capital Expenditure *(RMB million)*	Payments made as at October 31, 2010 *(RMB million)*	Outstanding Capital Expenditure *(RMB million)*
Land site acquisition	N/A	Completed	Completed	93	93	0
Ancillary site work and facilities	N/A	August 2010	–	37	0	37

	Designed Production Capacity *(tpa)*	(Expected) commencement time	(Expected) completion time	(Estimated) Capital Expenditure *(RMB million)*	Payments made as at October 31, 2010 *(RMB million)*	Outstanding Capital Expenditure *(RMB million)*
BDO production facilities (inclusive of any license fee)	55,000	September 2010	June 2011	560	113	447
1st phase PBS production facilities (inclusive of any license fee)	25,000	September 2010	September 2011	130	68	62
Subtotal:				820	274	546
2nd phase PBS production facilities (inclusive of any license fee)	50,000	Early 2012	By end of 2012	300	0	300
3rd phase PBS production facilities (inclusive of any license fee)	50,000	2013 earliest	Depending on time of commencement	300	0	300
Subtotal:				600	0	600
Total:				1,420	274	1,146

We plan to apply approximately HK$635 million (equivalent to approximately RMB543 million) of net proceeds from the Global Offering to finance the outstanding capital expenditure required to complete construction of our new BDO production facility and the first phase of our PBS production facilities. As for the remaining capital expenditure requirements of RMB600 million (equivalent to approximately HK$702 million) relating to the construction of our second and third phase of PBS production facilities, it is our current intention to finance it by internal funds, bank borrowings, surplus net proceeds from the Global Offering (if any) and, if necessary, by other form of debt financing and/or equity fund raising (so far as permitted under the Listing Rules).

The project design, project size, parameters, construction schedule, budget and other factors relating to the Zibo expansion plan may differ from the descriptions contained in this prospectus. See paragraph headed "Risk factors – Risks relating to our business – Construction of our Zibo production base is subject to various risks and uncertainties" in this prospectus.

OUR COMPETITIVE STRENGTHS

We attribute our success to date and potential for future growth to the following competitive strengths:

- The second largest producer of high-purity BDO in China
- First among current BDO producers in China to employ the DAVY Process
- Strong customer base and reputation
- Stable and low-cost supply of high quality raw materials and other materials
- Proven operational efficiency
- Experienced management team and employees

OUR STRATEGIES

We aim to further strengthen our leading market position in the BDO industry. Additionally, by leveraging on our expertise in BDO production, we aim to become a leader in China's biodegradable materials market through downstream expansion into BDO-based biodegradable PBS and PBS copolymer products, and aim to become a regional leader in PBS and PBS copolymer production. To achieve these goals, we intend to pursue the following strategies:

- Downstream expansion into PBS and PBS copolymer production
- Expand our designed BDO production capacity
- Collaborations with research institutes to develop formulations of PBS and PBS copolymers
- Further improve our production process and efficiency
- Continue to strengthen our sales and marketing efforts, particularly with regard to PBS and PBS copolymers
- Pursue strategic acquisitions and alliances

RISK FACTORS

Risks relating to our business

- We may encounter difficulties in our plan to produce PBS and PBS copolymers on a commercial scale or at all, and our business, financial condition, results of operations and prospects would be materially and adversely affected.

- If we are unable to market our PBS and PBS copolymers successfully, our business, financial condition, results of operations and prospects would be materially and adversely affected.

- We may face significant future competition in PBS production. If we are unable to compete effectively, our business, financial condition and results of operations would be materially and adversely affected.

- If the selling prices of PBS or PBS copolymers decrease, our profitability and prospects would be materially and adversely affected.

- Construction of our Zibo production base is subject to various risks and uncertainties.

- We depend on a small number of domestic customers for a significant share of our total revenue. Loss of any one or more of these customers may cause significant declines in our revenue.

- We depend on a small number of domestic suppliers for a large portion of our total purchases. Loss of any one or more of these suppliers may materially and adversely affect our business, prospects, financial condition and results of operations.

- We depend on a third party waste gas treatment company to process our waste gas generated from our Dongying operations. If this company ceases to provide waste gas treatment for us without proper notice or if this company breaches any of the applicable rules, regulations and laws of the PRC in the processing and discharge of our waste gas which resulted in damage to third parties, our business, prospects, financial condition and results of operations may be materially and adversely affected.

- If market demand for BDO fails to keep pace with the expansion of our designed BDO production capacity, our business, prospects, financial condition and results of operations could be materially and adversely affected.

- If we are unable to maintain high utilization rates of our production facility, our margins and profitability would be materially and adversely affected.

- Our average selling prices of BDO, GBL and THF fluctuated during the Track Record Period. If the selling prices for BDO and BDO derivative products decrease, our profitability would be materially and adversely affected.

- We operate in a highly competitive environment and we may not be able to sustain our current market position.

- Further developments in or alternatives to the DAVY Process may render our production process costly or obsolete, which may reduce our profitability and market share.

- The costs of raw materials, other materials and utilities used in our production may increase and our business, prospects, financial condition and results of operations could be adversely affected.

- Production of BDO and BDO-related products is energy-intensive and our results of operations may be materially adversely affected if energy costs were to rise further, or if our energy supplies were interrupted.

- Our business operations are extensively impacted by the policies and regulations of the PRC government. Any policy or regulatory changes may cause us to incur significant compliance costs.

- Our operations and assets are subject to extensive health, safety, environmental and other laws and regulations, which could result in material costs or liabilities.

- We may be subject to liability relating to the use and processing of hazardous substances in our production.

- We may incur losses resulting from operating hazards, product liability claims or business interruptions and our insurance coverage may not be sufficient to cover the risks related to our business.

- Our leased properties in the PRC may be subject to legal irregularities.

- The loss, revocation, suspension, modification or failure to obtain or renew certain government permits or approvals could materially and adversely affect our business.

- We may be required to pay up any outstanding social insurance and housing fund, or subject to penalties for any irregularities in our contribution to the social insurance and housing fund.

- We may not be able to adequately protect our proprietary know-how, or may be exposed to third-party claims of infringement or misappropriation of intellectual property rights.

- Mr. Zhang and certain members of the Group may be subject to potential legal proceeding which, if materializes, may result in a material and adverse impact on the assets and financial results attributable to our Company and our Shareholders.

- Our business depends substantially on the continuing efforts of our management and skilled employees as well as our ability to attract and retain qualified personnel, and our business may be severely disrupted if we lose their services.

- We may experience a shortage of labor or our labor costs may increase.

- We may not be able to effectively manage our growth.

- Mr. Zhang, our Controlling Shareholder, will have substantial influence over us and there may be conflicts of interest between our Controlling Shareholders, us and our other Shareholders.

- We rely on dividends paid out of the profits generated by our PRC subsidiaries for foreign currency needs of other non-PRC members of our Group after the Listing.

- Dividends declared in the past may not be indicative of our dividend policy in the future.

Risks relating to conducting business in the PRC

- Adverse changes in political and economic policies of the PRC government may have a material adverse effect on the overall economic growth of China, which may reduce the demand for our products and materially and adversely affect our competitive position.

- Recent regulations relating to offshore investment activities by PRC residents may limit our ability to acquire PRC companies and may adversely affect our business, prospects, financial condition and results of operations.

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

- A new PRC tax law increases the enterprise income tax rate applicable to our subsidiaries in China, which may have a material adverse effect on our results of operations.

- Because the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations and rules are not always uniform and such uncertainties may have a material adverse effect on us.

- You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us, our management or the experts named in the prospectus.

- The Chinese economy may experience inflationary pressure, which may lead to an increase in interest rates and a slowdown in economic growth.

- Fluctuation in exchange rates may have a material adverse effect on your investment.

- An outbreak of any severe communicable disease in the PRC may have an adverse effect on the economies of certain Asian countries and may adversely affect our results of operations.

Risks relating to the Global Offering and our Shares

- There has been no prior public market for our Shares, and the liquidity and market price of our Shares may be volatile.

- Current volatility in the global financial markets could cause significant fluctuations in the price of our Shares.

- Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

- The laws of the Cayman Islands relating to the protection of interest of minority shareholders are different from those in Hong Kong.

- Future sales of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares.

- Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy successfully.

- We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the Chinese economy and China's petrochemical industry contained in this prospectus.

SUMMARY HISTORICAL FINANCIAL INFORMATION

Summary Consolidated Statements of Comprehensive Income

	Year ended December 31,			Five months ended May 31,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	882,669	883,298	745,363	272,684	383,901
Cost of sales	(694,844)	(695,855)	(485,941)	(176,400)	(249,037)
Gross profit	187,825	187,443	259,422	96,284	134,864
Other income and gains	3,357	4,234	1,736	205	11,070
Selling and distribution costs	(13,440)	(15,237)	(15,870)	(6,340)	(6,361)
Administrative expenses	(8,423)	(13,910)	(12,595)	(1,886)	(6,380)
Other expense	–	–	–	–	(657)
Finance costs	(2,871)	(7,941)	(2,096)	–	(2,450)
PROFIT BEFORE TAX	166,448	154,589	230,597	88,263	130,086
Income tax expense	(20,332)	(20,681)	(58,515)	(22,233)	(33,155)
PROFIT FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	146,116	133,908	172,082	66,030	96,931
Profit for the year/period and total comprehensive income for the year/period attributable to:					
Equity holders of the Company	129,014	133,908	172,082	66,030	96,931
Non-controlling interests	17,102	–	–	–	–
	146,116	133,908	172,082	66,030	96,931

Summary Consolidated Statements of Financial Position

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets	437,548	521,404	725,743	594,968
Current assets	99,611	157,301	457,041	741,678
Total assets	537,159	678,705	1,182,784	1,336,646
Equity and liabilities				
Current liabilities	97,154	104,792	436,789	493,720
Total equity	440,005	573,913	745,995	842,926
Total equity and liabilities	537,159	678,705	1,182,784	1,336,646

Summary Consolidated Statements of Cash Flow

	Year ended December 31,			Five months ended May 31,	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net cash flows from operating activities	153,107	93,423	174,073	36,642	115,181
Net cash flows (used in)/from investing activities	(158,560)	(92,247)	(166,769)	46	64,574
Net cash flows from financing activities	35,879	27,919	209,574	204	162,614
NET INCREASE IN CASH AND CASH EQUIVALENTS	30,426	29,095	216,878	36,892	342,369
Cash and cash equivalents at beginning of year/period	47,740	78,166	107,261	107,261	324,139
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	78,166	107,261	324,139	144,153	666,508

Other Selected Financial Data

The following table below sets forth the revenue contribution of our Group's BDO, GBL and THF products during the Track Record Period.

	Year Ended December 31,						Five months ended May 31,	
	2007 Revenue		2008 Revenue		2009 Revenue		2010 Revenue	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
BDO	489,036	55.4	529,475	59.9	414,741	55.6	209,485	54.6
GBL	240,209	27.2	243,986	27.6	221,696	29.7	112,875	29.4
THF	153,424	17.4	109,837	12.5	108,926	14.7	61,541	16.0
Total	882,669	100.0	883,298	100.0	745,363	100.0	383,901	100.0

The following table sets forth our average selling price and sales volume by product during the Track Record Period:

	Year ended December 31,						Five months ended May 31,			
	2007		2008		2009		2009		2010	
	Sales Volume *tons*	Average Selling Price *RMB/ton*	Sales Volume *tons*	Average Selling Price *RMB/ton*	Sales Volume *tons*	Average Selling Price *RMB/ton*	Sales Volume *tons*	Average Selling Price *RMB/ton*	Sales Volume *tons*	Average Selling Price *RMB/ton*
BDO	29,263	16,712	35,099	15,085	34,952	11,866	14,034	11,405	14,561	14,387
GBL	12,470	19,263	14,905	16,369	15,780	14,049	5,632	13,738	7,016	16,088
THF	6,581	23,313	5,431	20,224	6,716	16,219	2,139	16,483	3,435	17,916
Total	48,314		55,435		57,448		21,805		25,012	

The following table sets forth the gross profit and gross profit margins of our BDO, GBL and THF during the Track Record Period:

	Year ended December 31,						Five months ended May 31,			
	2007		2008		2009		2009		2010	
	Gross profit RMB'000	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*
BDO	87,944	18.0	105,161	19.9	131,666	31.7	50,578	31.6	70,555	33.7
GBL	60,486	25.2	54,744	22.4	86,998	39.2	31,277	40.4	43,374	38.4
THF	39,395	25.7	27,538	25.1	40,758	37.4	14,428	40.9	20,935	34.0
Overall	187,825	21.3	187,443	21.2	259,422	34.8	96,283	35.3	134,864	35.1

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at our discretion and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which we consider relevant.

PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as our subsidiaries in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Under the applicable PRC law, each of our subsidiaries in the PRC may only distribute its after-tax profits after it has made allocations or allowances for (i) recovery of accumulated losses; (ii) allocations to the statutory reserves; and (iii) allocation to a discretionary common reserve fund as may be approved by its board of directors.

Subject to the factors above, we plan to distribute dividends regularly after the Listing. We intend to distribute approximately 35% of the distributable profits attributable to Shareholders of our Company as dividends for each full financial year subsequent to the Global Offering. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividend in such manner or declare and pay any dividend at all.

The Company and its subsidiaries did not pay nor declare any dividends during the Track Record Period. You should note that historical dividend distributions are not indicative of our future dividend policy.

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK$2.83 per Share (being the mid-point of the indicative range of the Offer Price of HK$2.33 to HK$3.33 per Share), we estimate that the net proceeds of the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, will be approximately HK$678 million. We intend to use these net proceeds for the following purposes:

- As to approximately HK$522 million (equivalent to approximately RMB446 million), to be applied to complete construction of our new 55,000 tpa BDO production facility (including applicable licence fee in respect of the forth-generation DAVY Process to be adopted);

- As to approximately HK$70 million (equivalent to approximately RMB60 million), to be applied to complete construction of our 5,000 tpa and 20,000 tpa PBS production lines (including applicable licence fee in respect of the IPCCAS Direct Polycondensation Process to be adopted), which constitutes the first phase of our PBS production facility expansion plan;

- As to approximately HK$43 million (equivalent to approximately RMB37 million), to be applied for completion of ancillary site work and facilities of our new Zibo production base; and

- As to approximately HK$43 million as general working capital of our Group.

We currently envisage that the net proceeds allocated above should be sufficient in completing construction of our new 55,000 tpa BDO facilities and the first phase of our PBS production facility expansion plan.

If the Offer Price is fixed below the mid-point of the indicative price range, the above allocation of net proceeds will be adjusted downward on a pro rata basis. In such event, we intend to fund the corresponding capital expenditure shortage by internally generated funds and/or bank borrowings.

If the Offer Price is fixed above the mid-point of the indicative price range and/or part or all of the Over-allotment Option is exercised, it is the present intention of our Directors to apply such additional net proceeds, first towards general working capital of the Group (up to an amount not exceeding 10% of the total net proceeds raised), with any balance to be applied in pursuit of our other strategies (as more particulars are set out in the paragraph headed "Our strategies" under the section headed "Business" in this prospectus which includes, without limitation, our second phase PBS production facility expansion plan). In this connection, on the assumption of the maximum Offer Price of HK$3.33 and full exercise of the Over-allotment Option, we estimate that the maximum net proceeds (after deducting underwriting fees and estimated expenses payable by us) will be approximately HK$970 million.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorized financial institutions and/or licensed banks in Hong Kong and/or the PRC.

The net proceeds from the Global Offering received by the Company in Hong Kong dollars will be accounted for in our financial statements at the exchange rate published by the People's Bank of China in effect at the time the net proceeds are received.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

Forecast consolidated profit attributable to equity holders of the Company[(1)] . . . . . not less than RMB201 million

Unaudited pro forma forecasted earnings per Share[(2)] . . . . . RMB0.17 (HK$0.20)

Notes:

(1) The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.

(2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010, on the basis that 1,170,000,000 Shares were in issue, assuming that the Shares to be issued pursuant to the Capitalization Issue and the Global Offering had been in issue on January 1, 2010. It does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted under the Share Option Scheme.

The following table sets forth a sensitivity analysis of the forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 with respect to the variation in the maleic anhydride cost (including purchase costand self-production cost) for the three months ending December 31, 2010, on the assumption that all other forecasted variables remain constant:

Variation in the maleic anhydride cost for the three months ending December 31, 2010[(1)]	**Corresponding variation in the forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010**	**Forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 (after taking into account variation in maleic anhydride cost for the three months ending December 31, 2010**
(%)	*RMB in million*	*RMB in million*
(15)	15.9	216.9
(10)	10.6	211.6
(5)	5.3	206.3
–	–	201.0
5	(5.3)	195.7
10	(10.6)	190.4
15	(15.9)	185.1

Note:

(1) No variation in the maleic anhydride cost for the nine months ended September 30, 2010 was considered in the sensitivity analysis because we have actually incurred such cost.

The above sensitivity analysis is based on the bases set out in Appendix III to this prospectus.

THE STRUCTURE OF THE GLOBAL OFFERING

The Global Offering comprises the Hong Kong Public Offering and the International Offering. A total of 292,500,000 Shares will initially be made available under the Global Offering. A total of 263,250,000 Shares will initially be offered under the International Offering for subscription (a) in the United States to QIBs in reliance on Rule 144A or another exemption under the U.S. Securities Act and (b) outside the United States in reliance on Regulation S, in the International Offering and the remaining 29,250,000 Shares will initially be offered to the public under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described in the paragraph headed "The Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus).

Investors may apply for Shares under the Hong Kong Public Offering or indicate an interest for Shares under the International Offering, but not under both. Investors may only receive Shares under either the International Offering or the Hong Kong Public Offering, but not under both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Offering will involve the selective marketing of Shares to QIBs in the United States in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

As part of the International Offering process, prospective professional, institutional and other investors will be required to specify the number of Shares they would be prepared to acquire under the International Offering either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about December 2, 2010.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the paragraph headed "The Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus.

THE GLOBAL OFFERING STATISTICS

	Based on an Offer Price of HK$2.33	**Based on an Offer Price of HK$3.33**
Market capitalization of our Shares[(1)]	HK$2,726.1 million	HK$3,896.1 million
Prospective price/earnings multiple on a pro forma basis[(2)]	11.6 times	16.6 times
Unaudited pro forma adjusted net tangible asset value per Share[(3)]	RMB1.13 (HK$1.32)	RMB1.34 (HK$1.57)

Notes:

(1) The calculation of market capitalization is based on 1,170,000,000 Shares expected to be in issue following completion of the Global Offering and the Capitalization Issue, but assuming no exercise of the Over-allotment Option.

(2) The calculation of the prospective price/earnings multiple on a pro forma basis is based on the forecasted earnings per Share on a pro forma basis at the respective Offer Prices of HK$2.33 and HK$3.33 per Share, assuming that the Over-allotment Option will not be exercised.

(3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II "Unaudited Pro Forma Financial Information" in this prospectus and on the basis of 1,170,000,000 Shares expected to be in issue following the Global Offering and the Capitalization Issue. This calculation assumes an Offer Price of HK$2.33 and HK$3.33 and that the Over-allotment Option will not be exercised.

In this prospectus, the following expressions shall have the meanings set forth below unless the context otherwise requires. Certain other terms are explained in the section headed "Glossary of technical terms" in this prospectus.

"Affiliate"	any person or entity, directly or indirectly controlling or controlled by, or under direct or indirect common control with a specified person or entity
"Apex Wide"	Apex Wide Holdings Limited (廣佳控股有限公司), a limited liability company incorporated in the BVI on July 20, 2009 and wholly-owned by Mr. Zhang, our founder, Controlling Shareholder, chairman and an executive Director
"Application Form(s)"	**WHITE**, **YELLOW** and **GREEN** application form(s) or, where the context requires, either one of them relating to the Hong Kong Public Offering
"Articles of Association" or "Articles"	the articles of association of our Company, conditionally adopted on November 16, 2010, and as amended from time to time, a summary of which is set out in Appendix V to this prospectus
"associate(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"Audit Committee"	the audit committee of our Board
"Beijing Huajing"	Beijing Huajing Zongheng Consulting Limited* (北京華經縱橫諮詢有限公司), an Independent Third Party and an economic information research institution in China, details of which are set out in the paragraph headed "Sources of information" in the section headed "Industry overview" in this prospectus
"Blue Skies"	Blue Skies Consultancy Limited (藍天顧問有限公司), a limited liability company incorporated in the BVI and wholly owned by Mr. Suo Lang Duo Ji (索郎多吉) and, save in relation to its pre-IPO investment into our Company, an Independent Third Party
"Board"	our board of Directors
"Business Day"	any day (excluding Saturday, Sunday or public holidays) on which banks in Hong Kong are generally open for business
"BVI"	the British Virgin Islands

"CCAM"	China Cinda (HK) Asset Management Co., Limited (中國信達(香港)資產管理有限公司), a limited liability company incorporated in Hong Kong and wholly owned by Well Kent, which in turn is wholly owned by China Cinda and, save in relation to its pre-IPO investment into our Company, an Independent Third Party
"Capitalization Issue"	the issue of 877,499,800 Shares to be made upon the capitalization of certain sums standing to the credit of the share premium account of our Company as referred to under the paragraph headed "Resolutions in writing of all our Shareholders passed on November 16, 2010" under the section headed "Further information about our Company and its subsidiaries" in Appendix VI to this prospectus
"CAS"	Chinese Academy of Sciences (中國科學院)
"Cayman Companies Law"	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by the HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CIG"	Chinaland Investment Group Limited, a limited liability company incorporated in the BVI and wholly owned by Ms. Cai Yunye (蔡云曄) and, save in relation to its pre-IPO investment into our Company, an Independent Third Party
"China Angel"	China Angel Investment Management Limited (中國天使投資管理有限公司), a limited liability company incorporated in the BVI and wholly owned by Mr. Jiang Qi Hang (江啟航) and, save in relation to its pre-IPO investment into our Company, an Independent Third Party

"China Cinda"	China Cinda Asset Management Corporation (中國信達資產管理公司), a wholly state-owned financial corporation established in the PRC and, save in relation to CCAM's pre-IPO investment into our Company, an Independent Third Party
"Circular No. 75"	Circular on several issues concerning foreign exchange regulation of corporate finance and roundtrip investments by PRC residents through special purpose companies incorporated overseas (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知(滙發[2005]75號), promulgated on October 21, 2005 and effective on November 1, 2005
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented or otherwise modified from time to time
"Connected Person(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules and, unless the context requires otherwise, refers to Apex Wide and Mr. Zhang
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"DAVY Process Technology Limited"	a UK Company which develops DAVY Process
"Deed of Non-competition Undertaking"	a deed of non-competition undertaking dated November 17, 2010 entered into by the Controlling Shareholders in favour of our Company, details of which are disclosed in the section headed "Relationship with our Controlling Shareholders" in this prospectus
"Director(s)"	the director(s) of our Company, including all executive, non-executive and independent non-executive directors, as at the Listing Date
"Dongying AIC"	Dongying Administration for Industry and Commerce (東營市工商行政管理局)
"Dongying FTEC"	Dongying Foreign Trade and Economic Cooperation Bureau (東營市對外貿易經濟合作局)

"Dongying Shengli"	Dongying Shengli A&C Chemical Co., Ltd.* (東營勝利中亞化工有限公司), a WFOE established in the PRC on August 28, 2003 and the principal operating subsidiary of our Company, in which we indirectly hold 100% equity interest
"E.U."	the European Union
"Eminent Gains"	Eminent Gains Limited (嘉益有限公司), a limited liability company incorporated in BVI on July 30, 2009 and a direct wholly-owned subsidiary of our Company
"Exit Investor 1"	CCB International Asset Management GSOF Limited, a limited liability company incorporated in the BVI and wholly-owned by CCB International Asset Management Company Limited, an affiliate of CCB International Capital Limited
"Exit Investor 2"	Trooper Group Limited, a limited liability company incorporated in the BVI and an Independent Third Party
"Exit Investors"	Exit Investor 1 and Exit Investor 2
"Freedonia"	Freedonia Custom Research Inc., an Independent Third Party and a business research company, details of which are set out in the paragraph headed "Sources of information" in the section headed "Industry overview" in this prospectus
"Full Smart"	Full Smart Development Limited (盈才發展有限公司), a limited liability company incorporated in Samoa on October 25, 2000 and a direct wholly-owned subsidiary of our Company. It was incorporated with the name "Full Smart Investments Limited (盈才發展有限公司)" which was subsequently changed to "Full Smart Development Limited (盈才發展有限公司)" on October 16, 2007, later to "Great Boom Holdings Limited (宏茂控股有限公司)" on May 12, 2009 and back to "Full Smart Development Limited (盈才發展有限公司)" on November 4, 2009
"Full Win New Material"	Shandong Full Win New Material Science and Technology Co., Ltd.* (山東匯盈新材料科技有限公司), a WFOE established in the PRC on April 2, 2008 in which we indirectly hold 100% equity interest
"Global Offering"	the Hong Kong Public Offering and the International Offering

"government authority"	any public, regulatory, taxing, administrative or governmental agency or authority (including, without limitation, the Hong Kong Stock Exchange and the SFC), other authority and any court at the national, provincial, municipal or local level
"GREEN Application Form(s)"	The application form(s) to be completed by **White Form eIPO** service provider, Computershare Hong Kong Investor Services Limited
"Group", "our Group", "we" "our" or "us"	our Company and, except where the context otherwise requires, all of its subsidiaries and jointly controlled entities from time to time including, in respect of the period before our Company became the holding company of such subsidiaries, the entities which carried on our present business at all relevant times
"HK$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong", "HKSAR" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
"Hong Kong Offer Shares"	the Offer Shares offered for subscription pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer by our Company of initially 29,250,000 Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%) on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the paragraph headed "The Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the paragraph headed "Hong Kong Underwriters" under the section headed "Underwriting" in this prospectus
"Huajing Report"	the report prepared by Beijing Huajing
"Hong Kong Underwriting Agreement"	the underwriting agreement dated November 29, 2010 relating to the Hong Kong Public Offering entered into by, our Company, the Controlling Shareholders, the Joint Sponsors, the Joint Global Coordinators and the Hong Kong Underwriters
"IAM"	Integrated Asset Management (Asia) Limited, a limited liability company incorporated in the BVI and wholly owned by Mr. Yam Tak Cheung (任德章)
"IFRS"	International Financial Reporting Standards
"Independent Third Party(ies)"	a person(s) or company(ies) who/which is or are independent of and not connected (within the meaning of the Hong Kong Listing Rules) with any directors, chief executive or substantial shareholders (within the meaning of the Hong Kong Listing Rules) of our Company, its subsidiaries or any of their respective associates
"International Offer Shares"	the 263,250,000 Offer Shares being initially offered for subscription under the International Offering, together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus
"International Offering"	the conditional placing of the International Offer Shares (a) in the United States to qualified institutional buyers (as such term is defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act or another exemption from the registration requirements under the U.S. Securities Act, and (b) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act, including to professional investors in Hong Kong, as further described in the paragraph headed "The International Offering" under the section headed "Structure of the Global Offering" in this prospectus

"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering which is expected to be entered into among our Company, the Controlling Shareholders and the Joint Global Coordinators on behalf of the International Underwriters on or around December 3, 2010
"International Underwriters"	the underwriters of the International Offering, led by the Joint Global Coordinators
"IPCCAS"	Technical Institute of Physics and Chemistry of the Chinese Academy of Sciences (中國科學院理化技術研究所)
"Joint Global Coordinators" or "Joint Bookrunners" or "Joint Lead Managers"	CCB International Capital Limited, Piper Jaffray Asia Securities Limited and Macquarie Capital Securities Limited
"Joint Sponsors"	CCB International Capital Limited and Piper Jaffray Asia Limited
"King General"	King General (HK) Limited (普君(香港)有限公司), a limited liability company incorporated in Hong Kong on August 18, 2009 and an indirect wholly-owned subsidiary of our Company
"Latest Practicable Date"	November 23, 2010, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
"laws"	all laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any governmental authority and "law" includes any one of them
"Listing"	the listing of our Shares on the Hong Kong Stock Exchange
"Listing Committee"	the listing sub-committee of the board of directors of the Hong Kong Stock Exchange
"Listing Date"	December 13, 2010, being the date on which dealings in the Shares are expected to commence on the Hong Kong Stock Exchange
"Max Talent"	Max Talent Holdings Limited, a limited liability company incorporated in the BVI on January 16, 2008 and wholly owned by Mr. Zhang

"Memorandum"	the memorandum of association of our Company adopted on August 27, 2009, as amended from time to time
"MEP"	Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部), formerly known as State Administration for Environmental Protection of the PRC (中國國家環保總局)
"Mint World"	Mint World (HK) Limited (銘華(香港)有限公司), a limited liability company incorporated in Hong Kong on February 12, 2008 and an indirect wholly-owned subsidiary of our Company
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Zhang"	Mr. Zhang Kaijun (張凱鈞), (formerly known as Mr. Zhang Ke (張克)), the founder of our Group and chairman of our Board, an executive Director, a Controlling Shareholder and the sole shareholder of Apex Wide
"NDRC"	National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
"Nomination Committee"	the nomination committee of our Board
"Offer Price"	the final Hong Kong dollar price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offering, to be determined as further described in paragraph headed "Determining the Offer Price" under the section headed "Structure of the Global Offering" in this prospectus
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Offer Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option
"our Company" or "the Company"	China New Materials Holdings Limited (中國新材控股有限公司), a limited liability company incorporated in the Cayman Islands on August 27, 2009

"Over-allotment Option"	the option to be granted by us to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters, at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 43,875,000 additional Offer Shares, representing 15% of the total number of Offer Shares initially available under the Global Offering, to, among other things, cover over-allocations in the International Offering as further described in the paragraph headed "Over-allotment Option and stabilization" under the section headed "Structure of the Global Offering" in this prospectus
"PBOC"	People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC" or "China" or the "People's Republic of China"	the People's Republic of China, but for the purposes of this prospectus, unless otherwise required in the context, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"PRC EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得税法), promulgated on March 16, 2007 by the National People's Congress which became effective as at January 1, 2008
"PRC government"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
"Pre-IPO Investors"	IAM, CCAM, CIG, China Angel, Sun Ascent and Blue Skies
"Previous Potential Investor"	Wai Chun Investment Fund (偉俊投資基金), a limited liability company incorporated in the Cayman Islands
"Price Determination Date"	the date, expected to be on or around December 3, 2010 but no later than December 10, 2010, on which the Offer Price is fixed for the purposes of the Global Offering
"QIBs"	qualified institutional buyers within the meaning of Rule 144A
"Regulation S"	Regulation S under the U.S. Securities Act

"Remuneration Committee"	the remuneration committee of our Board
"Reorganization"	the corporate reorganization undergone by our Group in preparation for the Listing as described in the section headed "History, Reorganization and corporate structure" in this prospectus
"Repurchase Mandate"	the general unconditional mandate to repurchase Shares given to the Directors by our Shareholders, further details of which are set out in the paragraph headed "Repurchase by our Company of its own Shares" under the section headed "Further information about our Company and its subsidiaries" in Appendix VI to this prospectus
"Rule 144A"	Rule 144A under the U.S. Securities Act
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家税務總局)
"SAWS"	State Administration of Work Safety of the PRC (中華人民共和國國家安全生產監督管理總局)
"SFC" or "Securities and Futures Commission"	Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Shandong Jiatai"	Shandong Jiatai Petroleum Chemicals Limited* (山東佳泰石油化工有限公司), a limited liability company incorporated in the PRC and an Independent Third Party
"Shandong Jinpeng"	Shandong Terra Nostra-Jinpeng Metallurgical Co., Ltd* (山東金鵬銅業有限公司), a limited liability company incorporated in the PRC in which Mr. Zhang held approximately 39.19% equity interest
"Shandong Shengming"	Shandong Shengming Group Limited* (山東盛銘集團有限公司) , a limited liability company incorporated in the PRC and an Independent Third Party

"Share(s)"	ordinary share(s) with nominal value of HK$0.01 each in the share capital of our Company, which are to be traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
"Shareholder(s)"	holder(s) of Share(s)
"Share Option Scheme"	the share option scheme conditionally approved and adopted by our Company on November 16, 2010, the principal terms of which are summarized under the section headed "Share Option Scheme" in Appendix VI to this prospectus
"Stabilizing Manager"	CCB International Capital Limited
"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into between the Stabilizing Manager and Apex Wide on or around December 3, 2010, pursuant to which the Stabilizing Manager (or its affiliates) may choose to borrow up to 43,875,000 Shares from Apex Wide to cover any over-allocation in connection with the Global Offering
"subsidiary(ies)"	has the meaning ascribed to it under section 2 of the Companies Ordinance
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Sun Ascent"	Sun Ascent Investment Limited (陽光投資有限公司), a limited liability company incorporated in the BVI and wholly owned by Mr. Qin Kebo (秦克波)
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Track Record Period"	the three financial years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010
"UK"	the United Kingdom of Great Britain and Northern Ireland
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement

"U.S." or "United States"	the United States of America, including its territories and possessions
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"Well Kent"	Well Kent International Investment Company Limited (華建國際投資有限公司), a limited liability company incorporated in Hong Kong and wholly owned by China Cinda and, save in relation to CCAM's pre-IPO investment into our Company, an Independent Third Party
"WFOE(s)"	wholly-owned foreign enterprise(s) in the PRC
"White Form eIPO"	the application for Hong Kong Offer Shares to be issued in the applicants' own name by submitting applications online through the designed website at www.eipo.com.hk
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"Zibo NHT Economic Development Bureau"	Zibo New-Hi Tech Industrial Development Zone Economic Development Bureau (淄博高新技術產業開發區經濟發展局)
"%"	per cent

Unless otherwise stated, the following exchange rates which are used in this prospectus are for information only:

RMB1.00 = HK$1.1703

Unless otherwise specified, statements contained in this prospectus assume no exercise of the Over-allotment Option.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC government authorities or the PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail. English translations of official Chinese names which are marked with "*" are for identification purpose only.

All times referred to in this prospectus in relation to the Global Offering refer to Hong Kong local time.

This glossary of technical terms contains terms used in this prospectus as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

"acetylene"	a colorless gas, C_2H_2, with an ether-like odor, produced usually by the action of water on calcium carbide or by pyrolysis of natural gas
"BDO"	1, 4-butanediol, a saturated carbon-4 straight-chain dibasic alcohol with a molecular formula of $C_4H_{10}O_2$. It is a colorless and almost odorless viscous liquid. BDO is an important basic organic chemical raw material and a feedstock of fine chemicals such as THF/PTMEG, PBT, GBL, PU and other solvents. These chemicals are widely used in fibres, engineering plastics, medicines, cosmetics, artificial leather, pesticides, plasticizers, hardener, solvent and rust remover etc.
"butadiene acetoxylation process"	a method of recovering butadiene gas from acetic acid
"CAGR"	compound annual growth rate, a method of assessing the average growth of a value over time
"chain extension process"	a process to synthesize and improve biodegradable polymers
"DAVY Process"	also known as the DAVY-McKee or Kvaerner process, a hydrogenation production technology which uses maleic anhydride as the main raw material for the manufacture of BDO
"di-methyl maleate"	an organic compound that can be synthesized from maleic anhydride and methanol, which be used as an additive and intermediate for plastics, pigments, pharmaceuticals, and agricultural products
"esterification"	a chemical reaction in which two reactants (typically an alcohol and an acid) form an ester as the reaction product

"GBL"	gamma-butyrolactone or γ-butyrolactone, an immediate downstream product of BDO having a molecular formula of $C_4H_6O_2$. It is a colorless, transparent and oily liquid soluble in water with a weak odor. GBL has a wide range of applications, including cosmetics, hair sprays, germicides, tablet binders and as process aids in beverage clarification
"IPCCAS Direct Polycondensation Process"	a PBS production process developed jointly by IPCCAS and HKH National Engineering Research Center of Plastics Co., Ltd (海爾科化工程塑料國家工程研究中心股份有限公司)
"isocyanate"	the functional group of atoms comprising of one nitrogen, one carbon and one oxygen
"maleic anhydride"	a colorless crystalline, unsaturated compound with a molecular formula of $C_4H_2O_3$. It is soluble in acetone and hydrolyzes in water, and is used in the production of polyester resins, agricultural chemicals and fumaric acid and malic acids
"methanol"	CH_3OH or methyl alcohol, or wood alcohol, a colorless, flammable liquid, produced synthetically by the direct combination of hydrogen and carbon monoxide gases, heated under pressure in the presence of a catalyst
"n-butane"	the feedstock for the catalytic process for the preparation of maleic anhydride
"NMP"	*N*-Methyl-2-pyrrolidone, a chemical compound used to recover pure hydrocarbons processing petrochemicals
"PBS"	polybutylene succinate, a fully biodegradable synthetic aliphatic polyester with a melting point of 114°C and in solid form under room temperature. PBS can be applied to a range of applications such as film, lamination, extrusion, monofilament, fiber, injection molding, foamed sheet and blow molding.
"PBS copolymer"	polybutylene succinate coploymer, a fully biodegradable synthetic aliphatic/aromatic copolyester with a melting point between 110°C and 120°C and is in solid form under room temperature

"PBSA"	poly butylene succinate adipate, a biodegradable aliphatic polyester with lower crystallinity and better biodegradability compared to PBS
"PBT"	polybutylene terephthalate, an immediate downstream product of BDO. It is a semi-crystalline, white or off-white thermoplastic polyester with high heat resistance and superior electrical insulation properties
"polycondensation process"	a condensation reaction of a monomer having two functional groups which leads to the formation of a polymer
"polyhydroxyalkanoates"	linear polysters in nature by bacterial fermentation of sugars or lipids, which are produced by the bacteria to store carbon and energy
"polylactic acid"	a biodegradable polyster derived from renewable resources such as corn starch or sugar cane
"propylene oxide process"	a method of producing propylene oxide by oxidizing cemune hydroperoxide or ethylbenzene hydroperoxide
"PTMEG"	polytetramethylene ether glycol, a waxy, white solid that melts to a clear, colorless viscous liquid near room temperature, derived from THF. The main uses of PTMEG are in the production of polyurethane elastomers, spandex fibers and copolyester-ether elastomers
"PU" or "polyurethanes"	polyurethane, an immediate downstream product of BDO with a molecular formula of $C_{25}H_{42}N_2O_6$. Its physical and chemical properties vary over a wide range, depending on the constituent monomers and reaction conditions, and therefore it is extremely versatile. PU is available in a variety of forms ranging from flexible or rigid foams to elastomers, coatings, adhesives, sealants, spandex fibers and hard plastic parts
"REPPE Process"	an industrial synthesis technology using acetylene as the main raw material to react with two molecules of formaldehyde to form BDO

"resin"	a hydrocarbon secretion of plants such as coniferous trees typically used for the production of varnishes, adhesives and food glazing agents
"succinic acid"	a solid at room temperature that forms colorless, odorless crystals, which plays a biochemical role in the citric acid cycle
"THF"	tetrahydrofuran, an immediate downstream product of BDO with a molecular formula of C_4H_8O. It is a colorless, water miscible organic liquid with low viscosity at standard temperature and pressure. THF is mainly used as a precursor to polymers and is often used to produce PTMEG, which in turn is used in manufacturing industrial and commercial end products, from artificial leather, construction materials, injection molding to thermoplastic urethane elastomer. THF is also used as a solvent in many pharmaceutical syntheses.
"tpa"	tons per annum
"ton"	a unit of weight, one ton is equal to 1,000 kilograms
"TPU"	a class of plastics with many useful properties, including elasticity, transparency, and resistance to oil, grease and abrasion
"utilization rate"	a percentage calculated by dividing the actual annual production volume by the designed annual production volume
"°C"	degrees celsius

We have included in this prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This prospectus contains certain statements that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "can", "could", "continue", "expect", "going forward", "estimate", "intend", "may", "ought to", "plan", "potential", "predict", "project", "prospective", "seek", "should", "will" or "would" and the negative of these terms and other similar expressions, as they relate to us.

These forward-looking statements include, without limitation, statements relating to:

- our business strategies and prospects;
- our capital expenditure plans;
- our planned future operations;
- our anticipated future liquidity and capital resources positions;
- our projected dividend policy;
- projects under construction or planning;
- the regulatory environment as well as the general industry outlook of our Group's industry;
- future development in our industry; and
- the general economic trend of China.

Forward-looking statements involve inherent risks and uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions may also be incorrect. Purchasers of our Shares are cautioned that a number of factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement. The risks and uncertainties in this regard include those identified in the risk factors discussed below. In light of these and other risks and uncertainties, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forwards-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

In addition to other information in this prospectus, you should carefully consider the following risk factors before making any investment decision in relation to the Offer Shares. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that our Group's principal operations are conducted in the PRC and are governed by a legal and regulatory environment that differs from those prevailing in other countries. If any of the events described below occur, our business, prospects, financial condition or results of operations could be materially and adversely affected, the market price of the Offer Shares could fall and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We may encounter difficulties in our plan to produce PBS and PBS copolymers on a commercial scale or at all, and our business, financial condition, results of operations and prospects would be materially and adversely affected.

We intend to diversify our product offerings into PBS and PBS copolymers, both BDO-based fully biodegradable polymers. As at the Latest Practicable Date, we were constructing two PBS production lines with designed production capacity of 5,000 tpa and 20,000 tpa, which were scheduled to be completed by June 2011 and September 2011, respectively. Depending on the then market response to our PBS and PBS copolymer products following the new product launch, and depending on the then utilization rates of these two PBS production lines, in the longer run we also plan to commence construction of two additional PBS production lines each with a designed production capacity of 50,000 tpa, as soon as in 2012 and 2013, respectively.

PBS and PBS copolymers are relatively new products among the biodegradable polymers in the global market and the PBS and PBS copolymer segment in China is currently at an initial stage of development. We lack experience in commercial production of PBS and PBS copolymers. We may encounter difficulties in our plan to produce PBS and PBS copolymers, which may cause us to incur additional costs, delay our production schedule or cause our production plan to differ from our expectation. There is no assurance that we will be able to produce PBS and PBS copolymers on a commercial scale or at all. If we are unable to produce PBS and PBS copolymers in accordance with our plan, we may lose our investment in the PBS production facilities and may incur additional losses, in which case our business, financial condition, results of operations and prospects would be materially and adversely affected.

If we are unable to market our PBS and PBS copolymers successfully, our business, financial condition, results of operations and prospects would be materially and adversely affected.

PBS and PBS copolymers are relatively new materials in China and the market for them is not yet well developed. Although we believe that PBS and PBS copolymers have significant potential, their market acceptance in China has not been adequately tested. Biodegradable plastic products made with PBS and PBS copolymers are generally expected to be more expensive than the non-biodegradable varieties. In addition, the technologies that are used to manufacture PBS and PBS copolymer downstream products

are relatively new. Formulations used to produce different types of PBS and PBS copolymer downstream products may vary and thus various testings and trial production will be required prior to the commencement of production for commercial use. It remains to be seen whether downstream producers can be readily convinced to switch from the non-biodegradable plastic materials they are currently using to PBS and/or PBS copolymers.

Currently, the Chinese government emphasizes the importance of environmental protection and promotes the use of biodegradable plastic materials, which we believe creates a favorable policy environment for the growth of the PBS and PBS copolymer market. While the Chinese government has given priority to the development of biodegradable materials industry by promulgating the Guide for Current Priorities for Development in the Key Areas of High Technology Industry (《當前優先發展的高技術產業化重點領域指南》), no favorable government policy promoting specifically the production and use of PBS and PBS copolymer has been promulgated as at the Latest Practicable Date. In addition, we cannot assure you that government support, if available, will always be in place in the future. If the Chinese government should withdraw its support for the development and use of biodegradable materials, it would have a negative impact on the potential market demand for PBS and PBS copolymers, and our business, financial condition, results of operations and prospects would be materially and adversely affected.

According to Freedonia (see the section headed "Industry overview" in this prospectus), it is expected that China's PBS production will lag behind its installed PBS capacity in the near future, resulting in significant under-utilization. According to Freedonia, various factors may cause China's PBS production to lag behind its installed PBS capacity in the near future, resulting in significant under-utilization. These factors include (i) the higher prices of PBS and PBS copolymers which generally require manufacturers to have a significant customer base willing to pay price premium for environmentally-friendly materials; (ii) the small existing base of PBS and PBS copolymers demand acting as a restraint on consumption as a result of the time associated with commercializing new products and adjusting to technical issues across the various stages of finished goods production and (iii) the limited availability of resin, both for PBS and PBS copolymers and for key blending components such as PLA.

There is no assurance that our efforts in developing market for our PBS and PBS copolymers will be successful, or will generate sufficient demand, if at all, for our PBS and PBS copolymers to support our new PBS production facilities currently under construction in Zibo. While we expect our revenue from PBS and PBS copolymer products to increase both in absolute terms and as a percentage of our total revenue in the future, there can be no assurance that we would be able to develop and expand our customer base for PBS and PBS copolymers products to generate enough demand for our PBS and PBS copolymers products. If we are unable to develop a market for our PBS and PBS copolymers or procure sufficient sales orders of PBS and PBS copolymers commensurate with our production plan or at all, our PBS production facilities may suffer from significant under-utilization and our business, financial condition, results of operations and prospects would be materially and adversely affected.

We may face significant future competition in PBS production. If we are unable to compete effectively, our business, financial condition and results of operations would be materially and adversely affected.

Our PBS production facilities currently under construction will adopt the IPCCAS Direct Polycondensation Process which we licensed from IPCCAS pursuant to a technology licensing agreement we entered into with IPCCAS in December 2009 (which was supplemented by a supplemental licensing agreement dated October 29, 2010). Under the technology licensing agreement, IPCCAS is entitled to grant the same license to three other companies. To the best of our knowledge, we have so far identified two PBS manufacturers in China, of which one adopts the IPCCAS Direct Polycondensation Process, and the other one adopts the chain extension process developed in collaboration with Qinghua University (see the paragraph headed "Competition" under the section headed "Business" in this prospectus). On the other hand, to the best knowledge of our Directors, we have not identified any manufacturer of PBS copolymers in China to date. That said, we expect to compete with domestic and overseas PBS and PBS copolymer producers, particularly in Japan and the United States, who may have longer operating histories, more experience and better marketing resources in respect of PBS and PBS copolymers than we do. If we are unable to compete effectively with these PBS and PBS copolymer producers, our downstream expansion into the production and sale of PBS and PBS copolymers may not be successful and our business, financial condition and results of operations would be materially and adversely affected.

If the selling prices of PBS or PBS copolymers decrease, our profitability and prospects would be materially and adversely affected.

The prices of PBS and PBS copolymers in China may be determined or influenced by various factors, such as PRC government policy on biodegradable materials, global and domestic PBS and PBS copolymers supply and demand, development of downstream PBS derivative products and applications, the prices set by our competitors and our ability to identify and develop markets for our PBS and PBS copolymer products.

Currently, the PRC government emphasizes the importance of environmental protection and promotes the use of biodegradable plastic materials, which we believe creates a favorable policy environment for the growth of the PBS and PBS copolymers market and the pricing of PBS and PBS copolymers. Should there be any change in such government policy, it would have a negative impact on the market demand for PBS and PBS copolymers and market prices of PBS and PBS copolymers. As at the Latest Practicable Date, no favorable government policy promoting specifically the production or the use of PBS or PBS copolymers has been promulgated by the PRC government. The market prices of PBS and PBS copolymers are susceptible to prices of other biodegradable plastic materials, which may be used as substitutes of PBS and PBS copolymers. The prevailing market prices of our PBS and PBS copolymers will also depend on the prices set by domestic and overseas PBS and PBS copolymers manufacturers. According to Freedonia, the price of PBS is expected to decline in the next few years as driven by the increasing availability of PBS from domestic producers, which are expected to be able to offer PBS at lower prices than foreign suppliers due to greater economies of scale and reduced operating costs. Further, the prices of PBS copolymers are expected to decrease in

the next few years due to the greater availability of imported and domestically-manufactured copolymers. If the anticipated future decrease in the selling prices of PBS and PBS copolymers cannot stimulate a sufficient increase in demand to compensate for the reduced profit margins, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Construction of our Zibo production base is subject to various risks and uncertainties.

We are currently constructing an additional BDO production facility and the first phase of our PBS production facilities in our Zibo production base. The timing and cost of completion of these new production facilities will depend on a number of factors commonly associated with large construction and expansion projects, some of which are critical but outside of our control, including:

- shortages of or changes in prices of construction materials, equipment and skilled labor;
- changes in design, construction, equipment installation and configuration;
- variations to plans or specifications and engineering problems;
- labor disputes and increases in labor costs;
- a deterioration in the financial condition of one or more of our contractors or other factors that adversely affect the ability of our contractors to complete construction on time, within budget or at all;
- disputes with or defaults by one or more of our contractors or subcontractors;
- adverse weather conditions, natural disasters, environmental issues, accidents and unforeseen circumstances and problems;
- failure or delays in obtaining governmental and third party permits, licenses and consents; and
- other regulatory, operating or commercial risks.

Any of these uncertainties may cause delays in the completion of our proposed expansion, increase our costs (construction, administrative, financial or otherwise) associated with the project and postpone the date when additional production capacity will become available, which could materially and adversely affect our business, prospects, financial condition and results of operations.

Further, in the event that the completion of our additional BDO production facility in Zibo is delayed to such time after the commencement of our PBS production in Zibo, we would be required to transport BDO produced in our Dongying production facility to our Zibo production facility, which would increase our costs and operating risks, and in turn materially and adversely affect our business, prospects, financial condition and results of operations.

We depend on a small number of domestic customers for a significant share of our total revenue. Loss of any one or more of these customers may cause significant declines in our revenue.

Sales to our top five largest customers accounted for approximately 37.8%, 34.1%, 21.5% and 26.1% of our total revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. Our largest customer accounted for approximately 9.5%, 8.7%, 5.6% and 7.4% of our total revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. We anticipate that our dependence on a limited number of domestic customers will continue in the foreseeable future.

We cannot assure you that we will be able to maintain or improve our relationships with our key customers, or that we will be able to continue to sell our products to these customers at current volumes or prices or at all. Our key customers may, in the future, expand into upstream products and produce their own BDO and its derivatives such as GBL and THF. If any of our key customers substantially reduces, changes, delays or cancels their orders with us or terminates their business relationship with us, we may not be able to obtain orders on comparable terms or in a timely manner or at all from other customers to replace any such lost sales. The occurrence of any of the foregoing events may cause material fluctuations or declines in our revenue and could materially and adversely affect our business, prospects, financial condition and results of operations.

We depend on a small number of domestic suppliers for a large portion of our total purchases. Loss of any one or more of these suppliers may materially and adversely affect our business, prospects, financial condition and results of operations.

Our five largest suppliers during the Track Record Period were mostly maleic anhydride suppliers. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, purchases from our five largest suppliers accounted for approximately 86.4%, 84.5%, 73.0% and 82.5% of our total amount of purchases, and the largest supplier accounted for 23.4%, 20.5%, 19.9% and 32.3% of our total amount of purchases, respectively. Since 2008, we made monthly prepayments to some of our maleic anhydride suppliers in order to secure favourable prices. During the Track Record Period, our hydrogen was principally sourced from a single supplier, namely Sinopec Shengli Oilfield Branch Petrochemical Factory* (中國石化勝利油田分公司石油化工總廠) ("**Sinopec Shengli**"). In addition, starting from December 2009, we have been using and will continue to use n-butane for our in-house production of maleic anhydride and we sourced all of the n-butane also from Sinopec Shengli up to the Latest Practicable Date. We anticipate that our dependence on a limited number of domestic suppliers will continue in the foreseeable future.

We cannot assure you that we will be able to maintain our relationships with our key suppliers, or that we will be able to continue to purchase our supplies from these suppliers at current volumes or prices or at all. In the event that we are not able to make or can only make a lesser amount of prepayment to our maleic anhydride suppliers, we may not be able to secure favourable prices. If any of our key suppliers decides not to supply materials to us and that we are unable to find alternative supplies on comparable terms or in a timely manner or at all, this may materially and adversely affect our business, prospects, financial condition and results of operations.

We depend on a third party waste gas treatment company to process our waste gas generated from our Dongying operations. If this company ceases to provide waste gas treatment for us without proper notice or if this company breaches any of the applicable rules, regulations and laws of the PRC in the processing and discharge of our waste gas which resulted in damage to third parties, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Since 2004, Dongying Shengli has engaged a third party waste gas treatment company to process waste gas generated from our Dongying operations. If this third party waste gas treatment company ceases to provide waste gas treatment for us without proper notice, we cannot assure you that we will be able to promptly find a suitable replacement to process our waste gas at a reasonable cost or at all. In addition, our PRC legal advisers have advised us that if this third party waste gas treatment company breaches any of the applicable rules, regulations and laws of the PRC in the processing and discharge of our waste gas which results in damage to third parties, we may be held jointly and severally liable for civil liabilities towards such third parties. If this does happen, our business, prospects, financial condition and results of operations may be materially and adversely affected.

If market demand for BDO fails to keep pace with the expansion of our designed BDO production capacity, our business, prospects, financial condition and results of operations could be materially and adversely affected.

Currently, BDO is our primary product, and sales of BDO represented approximately 55.4%, 59.9%, 55.6% and 54.6% of our revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. NDRC estimated that in 2015 the demand for BDO in China will reach approximately 700,000 tons and the production capacity will be above one million tons. As the bases of such estimates, NDRC cited that for 2009, new BDO production capacity of 230,000 tons was added while five production facilities currently under construction will add another 275,000 tons of BDO production capacity to the PRC market by 2012; and six production facilities with a total capacity of 365,000 tons are being planned in the PRC. The NDRC further warned of an oversupply of BDO and urged for elimination of less technologically advanced production capacities.

Many factors may affect the demand for BDO products, including:

- cost-effectiveness, performance and reliability of BDO products compared to conventional products and other competing products;

- fluctuations in economic and market conditions that affect the viability of competing products, such as increases or decreases in the prices of key raw materials;

- adoption or development of related technologies by downstream manufacturers and end-users of BDO products and products incorporating BDO, which may decrease when the economy slows down or which may not be as capable of being developed as previously expected; and

- increasing regulations limiting the use of key raw materials or production processes.

We are particularly susceptible to any general downturn in the BDO market or decrease in demand from our customers if, for instance, they expand upstream to produce BDO for their own captive use, or if they turn to an alternative source for raw material.

Growth in the BDO market is partly driven by new downstream products and applications. Our sustained development is highly dependent upon the development of new BDO-based products and technologies through which BDO, GBL and THF can be applied in different industries. We cannot assure you that new downstream products and new applications for our products will be developed successfully at a pace commensurate with our expansion, or at all.

Furthermore, we are constructing an additional BDO production facility in Zibo, Shandong province which is expected to increase our designed BDO, GBL and THF production capacity to an aggregate of approximately 81,800 tpa, 23,600 tpa and 6,600 tpa, respectively, upon its scheduled completion by June 2011. Although this increased designed production capacity is intended ultimately to serve our planned commercial production of PBS and PBS copolymers, until the product markets of PBS and PBS copolymers are sufficiently developed to support our intended PBS production scale, we will sell the surplus BDO produced under our new BDO production facility as finished products to our customers, and we may need to develop new customers and/or new markets to take up our increased BDO supply. There can be no assurance that we will be able to develop sufficient new customers for our BDO (or its derivative products, GBL and THF). If BDO downstream products and applications do not develop adequately or at a pace commensurable with our intended expansion of BDO production capacity, and if we fail to develop sufficient new customers for our products and sell them at reasonable prices, our business, prospects, financial condition and results of operations would be adversely affected.

If we are unable to maintain high utilization rates of our production facility, our margins and profitability would be materially and adversely affected.

Higher utilization rates of our production facility allows us to allocate fixed costs over a greater number of tons of product produced, thus increasing our profit margin.

Historically, our exiting production facility in Dongying achieved BDO production utilization rates of approximately 83.3%, 100.5%, 99.8% and 100.9%, for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. The utilization rates of our production facility depends primarily on the demand for our products. The utilization rates may also be affected by various other factors, such as adverse weather conditions, natural disasters and breakdown of production equipment. There is no assurance that we will be able to maintain a comparable level of utilization rates for our Dongying production facility in the future and in such event, our business, prospects, financial condition and results of operations may be materially and adversely affected.

In addition, with respect to the new production base to be constructed and operated in Zibo, Shandong province, as it has no production history, we cannot assure you that it will achieve its designed capacity or projected production levels in a cost-effective manner, or at all. If we are unable to achieve high capacity utilization rates for our new Zibo production base, our overall average cost per unit may increase and our gross margin would be reduced, and our business, prospects, financial condition and results of operations may be materially adversely affected as a result.

Our average selling prices of BDO, GBL and THF fluctuated during the Track Record Period. If the selling prices for BDO and BDO derivative products decrease, our profitability would be materially and adversely affected.

During the three years ended December 31, 2009, our Group's average selling prices of BDO, GBL and THF had experienced a decreasing trend, falling from RMB16,712, RMB19,263 and RMB23,313 per ton respectively in 2007 to RMB11,866, RMB14,049 and RMB16,219 per ton respectively in 2009 primarily as a result of global financial crisis in late 2008. Since then, our average selling prices of BDO, GBL and THF started to exhibit signs of re-bound and increased to approximately RMB14,387, RMB16,088 and RMB17,916 respectively for the five months ended May 31, 2010, and further increased to approximately RMB15,174, RMB16,806 and RMB18,878 respectively for the month of August 31, 2010. If our Group's average selling prices of BDO, GBL and THF fail to stablize in the future or start to decrease again, our business, financial condition, results of operations and prospects would be materially and adversely affected.

We sell our products in highly competitive markets. Due to the commodity nature of our products, competition in these markets is based primarily on price and to a lesser extent on product performance, product quality, product deliverability, reliability of supply and customer service. As a result, we generally are not able to protect our market position for these products solely by product differentiation.

Our ability to maintain our selling prices for our products will depend, among other factors, on the supply and demand in the global and domestic markets for our products, development of downstream BDO derivative products and applications, the prices set by our competitors, and our ability to identify markets for our products. We may be lack of the pricing power to maintain our selling prices if the Chinese market for BDO and its derivative products becomes increasingly commoditized as it matures.

Some of our domestic BDO competitors have increased, or have announced plan to increase, their BDO production capacities. Moreover, it has been alleged that in recent years certain overseas BDO producers, such as Saudi Arabian and Taiwanese producers, were dumping their BDO in China and have caused China's BDO sale prices to decline as a result. In response to complaints from BDO producers in China, on December 24, 2009, MOFCOM considered that BDO producers from Saudi Arabia and Taiwan had been dumping BDO in the China market which significantly damaged the domestic BDO industry. As a result, MOFCOM imposed an anti-dumping duty at a rate of 4.5% to 13.6% on BDO imported from Saudi Arabia and Taiwan into China for a period of five years from December 25, 2009. (See section headed "Industry overview" in this prospectus for further information). Any such increases in market capacity or market supply, without a

corresponding increase in demand, may cause an imbalance in domestic supply and demand that may depress the prices of our BDO products and put pressure on our margins. If we cannot lower our costs of sales when the selling prices of our products decline, we will not be able to maintain our margins and, as a result, our business, prospects, financial condition and results of operations may be materially and adversely affected.

We operate in a highly competitive environment and we may not be able to sustain our current market position.

The markets for our products are competitive. We face competition in the market for BDO products from both international and domestic producers. Some of our competitors may have greater access to capital and substantially greater production, intellectual property, marketing and other resources than we do. Our ability to compete successfully in the BDO industry depends on various factors, including effective cost-controls, consistency in product quality, timely delivery of products to meet customers' schedules, geographic proximity to customers and transportation convenience, customer service and technical expertise, and factors that are outside of our control, such as industry and general economic conditions. We cannot assure you that our strategies will remain competitive or that they will continue to be successful in the future. Increased competition may result in loss of our market share, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We also face competition from overseas suppliers. If our key customers meet their requirements through the use of offshore suppliers, we may not be able to increase our market share or find a market for our BDO products, and our business, prospects, financial condition and results of operations may be adversely affected.

Further developments in or alternatives to the DAVY Process may render our production process costly or obsolete, which may reduce our profitability and market share.

At present, there are four major BDO production methods commonly employed, namely the REPPE Process, the DAVY Process, the butadiene acetoxylation process and the propylene oxide process, each possessing its advantages and disadvantages compared to the other processes. Among these four methods, the REPPE Process remains to be employed by the global (as well as China) BDO industry at large.

We adopt the second-generation DAVY Process to manufacture BDO, GBL and THF at our Dongying production facility. We have been licensed the fourth-generation DAVY Process for use at our new BDO production facility in Zibo, Shandong province. We may need to invest significant financial resources in research and development or pay to license new or upgrade existing technologies to maintain our market position, keep pace with technological advances in BDO production and effectively compete against our competitors in the future. This may include acquiring new technology as the DAVY Process is updated or improved. Any failure to improve our technology may make our production process too costly or obsolete, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

The costs of raw materials, other materials and utilities used in our production may increase and our business, prospects, financial condition and results of operations could be adversely affected.

We purchase large amount of raw materials, other materials and utilities for our businesses, including maleic anhydride, n-butane, methanol, steam, hydrogen and various catalysts. As our designed production capacity of maleic anhydride is insufficient to satisfy our internal demand for BDO production, we continue to purchase maleic anhydride from third party suppliers after we commenced in-house production of maleic anhydride in December 2009. Our cost of raw materials represents a substantial portion of our cost of sales. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, total cost of our raw materials, other materials and utilities accounted for approximately 98.0%, 98.0%, 96.6% and 96.1% of our total cost of sales, respectively.

During the Track Record Period, we purchased hydrogen from Sinopec Shengli, which is located adjacent to our Dongying production facility and delivered hydrogen to us via a pipeline. This represents a significant advantage to us as hydrogen is highly flammable, difficult to transport by road and costly to store in large quantities. As we will not be able to source hydrogen for our new production base at Zibo from Sinopec Shengli via pipeline due to the geographical distance, there is no assurance that we will be able to source hydrogen for our new production base at Zibo at comparable cost or at the same level of operational risks.

The prices of most of our raw materials, other materials and utilities generally follow the price trends of, and vary with, market conditions. Supplies of these raw materials are also subject to a variety of factors that are beyond our control, including market shortages, suppliers' business interruptions, government control and regulations of energy industries, unavailability of long-term supply contracts, weather conditions and overall economic conditions, all of which may have impact on their respective market prices from time to time. In the future, there may be periods of time when we are unable to pass our cost increases on to customers in a timely manner to avoid adverse impacts on our margins. Our business, prospects, financial condition and results of operations could be adversely affected by the increase and volatility of these costs. Such cost increase may also increase working capital needs, which could reduce our liquidity and cash flow. In addition, when raw material costs increase rapidly and such costs are passed along to customers as product price increases, the credit risks associated with certain customers can be compounded and demand may decrease.

Production of BDO and BDO-related products is energy-intensive and our results of operations may be materially adversely affected if energy costs were to rise further, or if our energy supplies were interrupted.

We consume substantial amounts of energy in our production. We currently obtain all of our electricity from an electricity supplier in Shandong. Many cities and provinces in the PRC suffer serious power shortages from time to time. There have been cases where local governments in certain provinces have required local factories to temporarily shut down their operations or reduce their daily operational hours in order to reduce local power consumption levels. During the Track Record Period, we have not experienced any material interruptions in energy supply. We cannot assure you that our PRC operations will not be affected by those administrative measures, or experience interruptions in energy supply due to mandatory electricity rationing or other causes and resulting in material production disruption and delays in delivery schedules in the future. In such events, our business, prospects, financial condition and results of operations may be materially adversely affected. In addition, if energy costs were to rise, or if energy supplies or the local government's ability to supply and deliver electricity to our manufacturing facilities were disrupted, our business, prospects, financial condition, results of operations or liquidity position may be adversely affected.

Our business operations are extensively impacted by the policies and regulations of the PRC government. Any policy or regulatory changes may cause us to incur significant compliance costs.

We are subject to extensive national, provincial and local governmental regulations, policies and controls. Central governmental authorities, such as NDRC, MOFCOM, SAFE and SAT, and provincial and local authorities and agencies regulate many aspects of Chinese industries, including, among others, the following aspects:

- construction or development of new production facilities;
- establishment or change in shareholder of foreign investment enterprises;
- taxes, duties and fees;
- foreign exchange; and
- land use rights.

The liabilities, costs, obligations and requirements associated with these laws and regulations may be material, may delay the commencement of operation at our new production facilities or cause interruptions to our operations. Failure to comply with the relevant laws and regulations in our operations may result in the suspension of our operations and thus adversely and materially affect our business, prospects, financial condition and results of operations. Additionally, there can be no assurance that the relevant government agencies will not change such laws or regulations or impose additional or more stringent laws or regulations. Compliance with such laws or regulations may require us to incur material capital expenditures or other obligations or liabilities.

Our operations and assets are subject to extensive health, safety, environmental and other laws and regulations, which could result in material costs or liabilities.

Our business is subject to laws and regulations relating to health, safety and the environment by national, provincial and local PRC governmental authorities. The risks of substantial costs and liabilities related to these laws and regulations are an inherent part of our business. These laws and regulations concern air emissions, wastewater discharges, solid and hazardous waste material handling and disposal, worker health and safety and the investigation and remediation of contamination. They may impose fees for the discharge of waste substances and impose fines for environmental offenses. They also require us to obtain permits, including environmental permits and the safety production permit for hazardous chemicals. The PRC government may shut down any facility that fails to comply with orders requiring it to correct or cease operations that raise environmental concerns. Some of these laws and regulations are subject to varying and conflicting interpretations. If we fail to comply with the relevant safety and environmental and other laws and regulations or fail to pass any safety or environmental impact inspection or evaluation, or if an accident occurs onsite or we are judged responsible for a safety or environmental hazard elsewhere, there will be material adverse effects on our corporate image, reputation and credibility of our management team, as well as our business, prospects, financial condition and results of operations. Any remedial measures we are required to adopt may be costly and may put constraint on our financial resources.

Other developments, such as increased health and safety laws and regulations, the stricter enforcement thereof, and claims for damages to property or injury to persons resulting from the environmental, health and safety or past contamination, could prevent or restrict some of our operations, require significant expenditure to bring us into compliance, involve the imposition of clean up requirements or give rise to civil or criminal liability. Any such legislation, regulation, enforcement or private claim could have a material adverse effect on our business, financial condition, cash flows, prospects and results of operations.

Estimated costs for future environmental compliance and remediation are necessarily imprecise due to such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the potentially responsible parties under applicable statutes. If actual expenditure exceeds the amounts provided, that could have an adverse effect on our business, prospects, financial condition and results of operations.

We may be subject to liability relating to the use and processing of hazardous substances in our production.

Our business involves the transport, handling, production and use of substances and compounds that may be considered toxic or hazardous within the meaning of environmental laws in the PRC. Furthermore, our manufacturing operations generate noise, gaseous chemicals, waste water and toxic, volatile or otherwise hazardous materials at various stages of the refining and manufacturing processes. Maleic

anhydride, methanol, hydrogen, n-butane, BDO, GBL and THF are hazardous chemicals requiring special transportation, storage and process handling. We cannot assure you that our safety and emergency plans and procedures will be adequate to handle any leakages, spills, corrosion or other accidents and there is an inherent risk of contamination and environmental damage. Any failure by us to control the use of, or inadequately restrict the discharge of, hazardous substances could result in loss or damage to property, personal injury, environment and other third party liabilities, as well as various compliance costs, all of which would have a material adverse effect on our business, prospects, financial condition and results of operations or cause us to cease operations entirely. In addition, if more stringent governmental regulations are adopted in the future, the costs of compliance with these new regulations may be substantial.

We may incur losses resulting from operating hazards, product liability claims or business interruptions and our insurance coverage may not be sufficient to cover the risks related to our business.

Our operations involve the use, handling, generation, processing, storage, transportation and disposal of hazardous materials, which may result in fires, explosions, spills, corrosion and pollution, and other unexpected or dangerous accidents causing personal injuries or death, property damage, environmental damage and business interruption. Any occurrence of these or other accidents in our operation may have a material adverse effect on our business, prospects, financial condition and results of operations. In addition, we cannot predict whether product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. The successful assertion of product liability claims against us may result in material monetary damages and may have a material adverse effect on our business, prospects, financial condition and results of operations. We do not have any business interruption insurance or third party liability insurance, nor do we maintain any insurance against war, expropriation, nationalization, renegotiation or nullification of existing contracts, changes in taxation policies, currency exchange restrictions, changing political conditions or international monetary fluctuations. See paragraph headed "Business – Insurance coverage" in this prospectus. Occurrence of any such events that impact us in an unfavourable way may result in substantial costs and diversion of resources.

We cannot assure you that our current insurance would adequately protect us against all potential hazards and liabilities incidental to our businesses, including, among others, losses resulting from operating problems, natural disasters, war, terrorist acts or business interruptions. Changes in insurance market conditions may cause premiums and deductibles for certain insurance policies to increase substantially and, in some instances, for certain insurance to become unavailable or available only for reduced amounts of coverage. Losses incurred or payments we may be required to make may have a material adverse effect on our business, prospects, financial condition and results of operations to the extent that such losses or payments are not insured or the insured amount is not adequate.

Our leased properties in the PRC may be subject to legal irregularities.

We have not completed the lease registration for the following leased properties in the PRC:

- office units located in close proximity with our new Zibo production base as our PRC main administration offices;
- office units located in Jinan of Shandong province as our Group's sales representative office; and
- a building located in Zibo of Shandong province as our 500-liter PBS laboratory facility;

referred to as properties no. 4, 5, 6 and 7 under "Property interests rented and occupied by our Group in the PRC" in our property valuation report in Appendix IV to this prospectus.

The above office units are non-production related and our PBS laboratory facility is intended primarily for trial and testing purposes. Although such properties can be readily relocated and our PRC legal advisers has advised that non-registration of leases of the above properties will not render the lease agreements invalid or affect the legality of the lease agreements under the Contract Law of the PRC (《中華人民共和國合同法》), we may be subject to rectification or fines by the relevant authorities, thus our business, results of operations and financial condition may nevertheless be negatively affected.

The loss, revocation, suspension, modification or failure to obtain or renew certain government permits or approvals could materially and adversely affect our business.

We are required to obtain certain permits and approvals to operate our businesses and facilities, such as a Safety Production Permit (安全生產許可證) for THF. When we commenced production of THF in January 2007, we had not yet obtained the relevant Safety Production Permit for THF. We were not required to possess a Safety Production Permit to engage in the trial production from January to June 2007, as supported by the fact that the Safety Production Administration of Dongying (東營市安全生產監督管理局) issued a confirmation letter dated August 13, 2010 confirming that, Dongying Shengli was allowed a trial production period of six months before obtaining the Safety Production Permit and the Safety Production Administration of Dongying (東營市安全生產監督管理局) would not impose any administrative penalties and fines upon Dongying Shengli during the trial production period. On June 7, 2007, we obtained our Safety Production Permit for THF, which was effective until June 6, 2010. On June 7, 2010, we renewed our Safety Production Permit for THF, which is effective until June 6, 2013. We have not in the past experienced any suspension in production of THF due to lack of any requisite license. The Safety Production Administration of Dongying (東營市安全生產監督管理局) issued a confirmation letter dated August 5, 2010 confirming that Dongying Shengli complies with the relevant national safety production laws and regulations, had not experienced any material accidents relating to safety production and was not subject to any fines,

rectification or other penalties. However, there is no assurance that we will be able to obtain or renew safety production permit or other permits and approvals required for PBS production in a timely manner or at all.

Our PRC legal advisers have confirmed to us that in the past, we have obtained all requisite permits and approvals to operate our businesses and facilities. In the future, we may be required to renew such permits and approvals or to obtain new permits and approvals. There can be no assurance that the relevant authorities will issue any such permits or approvals in the time-frame anticipated by us or at all. Failure by us to renew, maintain or obtain the required permits and approvals may interrupt our operations or delay or prevent the implementation of our capacity expansion program, and may have a material adverse effect on our business, prospects, financial condition and results of operations. Any loss, revocation or suspension of these permits or approvals could lead to fines and other penalties and ultimately to a suspension of our operations.

Any loss, revocation or suspension of these permits or approvals could lead to fines and other penalties and ultimately to a suspension of our operations. The authorities may modify the terms of our permits or approvals at their discretion. Any unfavorable modification of the terms of our permits or approvals or other change in our legal or regulatory environment could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be required to pay up any outstanding social insurance and housing fund, or subject to penalties for any irregularities in our contribution to the social insurance and housing fund.

Pursuant to the relevant PRC laws and regulations, we are required to pay for a portion of our employees' pension insurance, medical insurance, unemployment insurance, birth insurance, work-related injury insurance (together, "**social insurance**") and housing fund contributions. Due to inconsistent implementation and interpretation of the PRC laws and regulations by the relevant local authorities during the Track Record Period, we have not fully paid, or have not been required by the relevant local authorities to fully pay, the social insurance payments for our employees, including certain temporary employees and employees under probation of Dongying Shengli and Full Win New Material who either (i) have retired prior to being employed by us; (ii) are registered as rural residents or (iii) are new joiners. As at the Latest Practicable Date, there were 22 employees of Dongying Shengli and 11 employees of Full Win New Material who fall under this category.

Also, during the Track Record Period, the social insurance and housing fund contributions of certain of the employees of Dongying Shengli whose permanent residence are registered in Jinan or Zibo have been arranged to be effected under social benefit accounts of Full Win New Material (our Zibo subsidiary), Shandong Quanxin Aluminum Co., Ltd.* (山東泉信不銹鋼有限公司) (a related party company in which Mr. Zhang has an effective interest of approximately 20%) and another Independent Third Party company in Jinan. This arrangement was put in place primarily because some of our employees who are residents of Jinan City and Zibo City are unwilling to register their social benefit accounts in Dongying City. Our PRC legal advisers have advised us that

such arrangements does not fully comply with relevant PRC laws. We relied on the two external companies not within our Group to make contributions in full of such benefit payments for the relevant employees of Dongying Shengli in which we have reimbursed the relevant social insurance and housing fund contributors to these companies. Under the applicable PRC law, we bear joint and several liability for unsatisfied obligations of such companies arising from their contracts with our employees. To ensure strict compliance with the relevant PRC social insurance and housing fund laws and regulations, we have entered into labour contracts with such employees and we now pay for their social insurance and housing funds directly under our own social insurance and housing fund accounts.

Moreover, during the Track Record Period, the social insurance and housing fund contributions of certain of the employees of Dongying Shengli were made by themselves and reimbursed by us. As at the Latest Practicable Date, we have rectified this practice by effecting such funds directly under our own social insurance and housing fund accounts.

We have carried out rectification action by notifying the relevant local authority of the above arrangements, and we received confirmation letters dated August 4, 2010 and August 5, 2010 from the relevant authorities confirming each of our subsidiaries has complied with relevant labor protection laws and regulations, and is not subject to any late payment or fine or penalties since its establishment. However, we cannot assure that we will not be subject to future order from the government to pay such amount of contributions deemed outstanding, and that there are no labor disputes or claims in respect of employee complaints regarding payment of social insurance and housing fund contributions or that such claims will not be brought against us in the future, and that we will not be required to pay such contributions or any related damages in the future. As advised by our PRC legal advisers, Jun He Law Offices, if the above arrangements is subsequently overruled by the relevant authorities, according to applicable PRC social insurance and housing fund laws, the responsible persons of our subsidiaries may be liable to a fine of up to RMB10,000 and we, as employer who fails to report and pay social insurance contributions, may be ordered to rectify the problem and pay the contributions by a stipulated deadline. If payment is still not made by the deadline, we will be subject to a daily surcharge of 0.2% of the total outstanding social insurance contributions. As at the Latest Practicable Date, we did not receive any order to rectify the problem or notice on payment of social insurance or housing fund contribution from the government authorities, and we undertake to pay the contributions by the stipulated deadline in case we are ordered to do so. Mr. Zhang, our Controlling Shareholder, has agreed to indemnify our Group, subject to the terms and condition of the Deed of Indemnity, in respect of any liabilities that may arise as a result of any non-compliance of social insurance and housing fund laws and regulations. Our PRC legal advisers confirmed that as we have not received any notices from or have not been ordered by the relevant government authorities to pay any outstanding social insurance and housing fund contribution up to the Latest Practicable Date, the daily late fee payment is not applicable to our Group and our Group is not subject to any other penalties or fines as a result of the above irregularities of the Group's contribution to the social insurance and housing fund.

In view of the opinion of the Company's PRC legal advisers and given Mr. Zhang has agreed to indemnify our Group in respect of any liabilities that may arise as a result of any non-compliance of social insurance and housing fund laws and regulations, we had not made any provision for social insurance contributions during the Track Record Period.

In case we are requested by the relevant government authorities in the PRC to pay the amounts of social insurance and housing fund contributions deemed outstanding, the maximum total amount of fund contributions payable by our Group up to May 31, 2010 is estimated to amount to approximately RMB3.5 million calculated by deducting the total amount of social insurance and housing fund contributed by us of approximately RMB4.9 million from the total maximum amount of social insurance and housing fund payable by us of approximately RMB8.4 million up to May 31, 2010.

We may not be able to adequately protect our proprietary know-how, or may be exposed to third-party claims of infringement or misappropriation of intellectual property rights.

To protect the proprietary know-how we use in our production, we rely primarily on contractual arrangements with our management and technical personnel who have access to our proprietary know-how. We cannot assure you that our standard confidentiality and non-competition agreement or the non-disclosure clauses in our employment contracts are enforceable under PRC law or are adequate to protect our intellectual know-how.

We have been collaborating with various institutions to improve our production technology, product quality and explore into new product areas. Some of the intellectual property rights developed by us jointly with these institutions may be registered jointly under both parties or registered under such institutions. For example, we entered into a technology cooperation agreement with Sichuan University in May 2010 pursuant to which any intellectual property rights developed pursuant to the collaborations under the agreement shall be registered jointly under both parties while we shall be entitled to the exclusive right of use. Any dispute arising out of this intellectual property arrangement or other arrangements with other institutions that we collaborate with could have a material and adverse effect on our business operations.

Implementation and enforcement of PRC intellectual property laws have historically been difficult primarily due to ambiguities in the PRC laws. Therefore, intellectual property rights and confidentiality protections in China may not be as effective as those in Hong Kong or other countries. Policing unauthorized use of proprietary know-how is difficult and expensive, and we may need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. The experience and capabilities of PRC courts in handling intellectual property litigation varies, and the outcomes are unpredictable. Further, such litigation may require a significant cash outlay and may divert management's attention, which could harm our business, financial condition and results of operations. An adverse judgement in any such litigation could materially impair our intellectual property rights and may harm our business, prospects and reputation.

Alternatively, we may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse judgement in any such litigation or proceedings to which we may become a

party may subject us to significant liability to third parties, require us to seek licenses from third parties, pay ongoing royalties, redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation may also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation.

Mr. Zhang and certain members of our Group may be subject to potential legal proceeding which, if materializes, may result in a material and adverse impact on the assets and financial results attributable to our Company and our Shareholders.

Mr. Zhang, our Controlling Shareholder, was introduced to the Previous Potential Investor in 2007. During the period from August to October 2007, a series of agreements (the "**2007 Agreements**") were entered into among the Previous Potential Investor, Mr. Zhang, Full Smart and Dongying Shengli for the purpose of a potential pre-IPO investment into our Group, pursuant to which it was conditionally agreed among the parties that (i) the Previous Potential Investor would, for a consideration of HK$100 million, subscribe for 20% of the issued share capital of Full Smart as enlarged by the subscription (the "**Proposed Subscription**"); and (ii) the shares of Full Smart and the equity interest of Dongying Shengli would be charged or mortgaged to the Previous Potential Investor as security for the Proposed Subscription.

Pursuant to the Proposed Subscription, the Previous Potential Investor advanced a total of HK$50 million (the "**Investment Deposit**") to our Group during the period from August to September 2007 as deposit for the Proposed Subscription pending fulfillment of certain conditions precedent as stipulated in the 2007 Agreements. In November 2007, the charge on the equity interest of Dongying Shengli (the "**Dongying Shengli Charge**") was registered with Dongying AIC with an effective period of one year. However, in or around December 2007, the Previous Potential Investor decided not to proceed with the Proposed Subscription and demanded refund of the Investment Deposit in full with interest. During the period between December 24, 2007 to March 13, 2008, Mr. Zhang and/or our Group refunded a total of HK$34,501,150 to the Proposed Investor. According to an affidavit executed by Mr. Zhang on August 13, 2010, a meeting was held between Mr. Zhang and the Previous Potential Investor in March 2008 to discuss about, among other things, payment of the remaining balance of the Investment Deposit and interest. As confirmed by Mr. Zhang, during the meeting, it was verbally agreed that against payment of a balance of HK$24,400,000, the Previous Potential Investor would procure for the release of the charge and/or mortgage over the shares of Full Smart and the equity interest of Dongying Shengli Charge (the "**Verbal Settlement Agreement**"). The agreed balance payment was accordingly effected on the same day of the said meeting, as a result of which a total of HK$58,901,150, comprising the Investment Deposit plus interest, was refunded in full to the Previous Potential Investor.

Subsequently, on November 24, 2008 following expiry of the registration of the Dongying Shengli Charge, Dongying Shengli filed with Dongying AIC for the de-registration of the Dongying Shengli Charge and was accordingly accepted by Dongying AIC.

On April 15, 2009, the directors of Full Smart passed a resolution approving the removal of the remarks in the register of members of Full Smart in respect of the charge

and/or mortgage over Mr. Zhang's shares of Full Smart. The legal advisers as to Samoa law confirmed that, having regard to the acceptance of evidence by the directors of Full Smart that the Investment Deposit has been repaid, a resolution of directors of Full Smart acknowledging that fact and that there can be no charge over Mr. Zhang's shares of Full Smart should release Mr. Zhang from any obligation over his shares. The Samoa legal advisers further confirmed that as at March 16, 2010, no charge over the shares of Full Smart was registered at the Registry of International Companies of Samoa. Considering that Full Smart is a company incorporated in Samoa and the Samoa legal adviser is a registered law firm duly qualified to practice law in Samoa, our Directors believe that the Samoa legal adviser is the appropriate professional party to provide its views and confirmations on the abovementioned issues relating to Full Smart. Our Directors confirmed that at all material times up to the Latest Practicable Date, the voting rights and beneficial interests of the subject 20% issued share capital of Full Smart were controlled by Mr. Zhang.

In or about January 2010, the Previous Potential Investor filed an administrative action (the "**PRC Action**") with Shandong Province Dongying City Intermediate People's Court ("**Dongying People's Court**") against Dongying AIC (as defendant) and Dongying Shengli (as third party) for wrongful grant of de-registration of the Dongying Shengli Charge and non-compliance with procedures then in effect, on the basis that the Measures for Equity Interests Pledges Registration with Administration of Industry and Commence (《工商行政管理機關股權出質登記辦法》), which took effect from October 1, 2008, required that registration and/or de-registration of charges of equity interests would require a "registration" procedure instead of a "filing" procedure as previously required. Based on an administrative ruling issued by the Dongying People's Court on April 13, 2010, the Previous Potential Investor voluntarily withdrew the PRC Action on the basis that Dongying AIC agreed with the position of the Previous Potential Investor that the Dongying Shengli Charge was not de-registered as at the date thereof. In light of the above, our Group proceeded to rectify the de-registration of the Dongying Shengli Charge and on September 15, 2010 obtained the Notice of Equity Charge De-registration (the "**De-registration Notice**") issued by Dongying AIC announcing that the Dongying Shengli Charge was officially released as of the same date. Our PRC legal advisers advised that the Dongying Shengli Charge was duly released on September 15, 2010 in compliance with applicable PRC laws and regulations. In order to preempt any regulatory challenges on the transfer of entire equity interest of Dongying from Shengli Full Smart to King General as part of the Reorganisation (the "**1st Dongying Shengli Equity Transfer**") which was completed prior to the issuance of the De-registration Notice, Full Smart and King General re-executed the transfer of the entire equity interest of Dongying Shengli on November 26, 2010 (the "**2nd Dongying Shengli Equity Transfer**"), on the same terms as the 1st Dongying Shengli Equity Transfer. The 2nd Dongying Shengli Equity Transfer was approved by the Bureau of Commerce of Dongying City (東營市商務局) and registered with Dongying AIC on November 26 2010. Our PRC legal advisers advised that the 2nd Dongying Shengli Equity Transfer was duly completed in compliance with the applicable PRC laws and regulations and the above non-compliance had been fully rectified.

On February 4, 2010, a writ of summons with an indorsement of claim (the "**Unserved Writ**") was issued from the High Court of Hong Kong against Full Smart, Mr. Zhang and Dongying Shengli (together the "**Alleged Defendants**") for unspecified damages and declaratory relief (the "**HK Action**"). Since its issuance, the Unserved Writ has not been served on any of the Alleged Defendants, nor has the Previous Potential Investor served and/or put forward any statement of claim, whether in draft form or otherwise. The precise basis of the claim is unknown. In view of this, the Alleged Defendants have sought advice from a Hong Kong counsel (the "**Counsel**") who advised, *inter alia*, that (i) it is more likely than not the security interest of the Previous Potential Investor over Mr. Zhang's shares in Full Smart was that of an equitable mortgage; (ii) it is likely that the payment of the sum of HK$58,901,150 (being refund of the Investment Deposit with interest) under the Verbal Settlement Agreement would result in the discharge of the Previous Potential Investor's security interest over the shares of Full Smart; and (iii) since there can be no further underlying basis for the existence of such security when all relevant underlying obligations have been performed, the mere performance of the underlying obligations (that is, the full payments pursuant to the Verbal Settlement Agreement) is sufficient to put an end to the security interest over the shares of Full Smart. The Counsel further advised that the Alleged Defendants have no legal obligation to accede to the jurisdiction of the courts of Hong Kong for the HK Action. Acting out of prudence, the Alleged Defendants have engaged Hong Kong legal advisers including the Counsel to advise and handle the HK Action. Legal documentation for, *inter alia*, compelling the Previous Potential Investor to serve the Unserved Writ and, if the Previous Potential Investor fails to do so, an application for the dismissal of the HK Action have been prepared and are ready to be served if so instructed by the Alleged Defendants.

The above-mentioned PRC, Hong Kong and Samoa legal opinions have not been communicated to the Previous Potential Investor and/or its legal counsel. Accordingly, there is no assurance that the Previous Potential Investor and/or its legal counsel would not dispute with or object to the above-mentioned legal opinions.

Additionally, there is no assurance that our Group will not later become subject to any legal proceedings (whether initiated in Hong Kong, the PRC or elsewhere) with the Previous Potential Investor. Any legal proceedings initiated by the Previous Potential Investor against our Group may result in substantial legal costs, judgments, settlements, diversion of resources and management attention, or other results adverse to the our Group, which could materially and adversely affect our reputation, corporate or directors' image, Share price, business, financial conditions and results of operations.

Based on the advice from Samoa legal adviser, the advice from the Counsel and the advice from the PRC legal adviser (in respect of their respective jurisdiction), the Directors are of the opinion that any claims against the Company or any subsidiaries of the Group are unfounded. Further, based on De-registration Notice and the advice from our PRC legal adviser (in respect of PRC law only) advising that Dongying Shengli Charge was released on September 15, 2010, and the advice from Samoa legal adviser (in respect of Samoa law only) advising that the security over the shares of Full Smart previously pledged to the Previous Potential Investor was released, the Directors are of the opinion that the possibility that the Group would lose control over Full Smart and/or Dongying

Shengli is remote. However, due to the unspecified damages and declaratory relief of the Unserved Writ, the Directors are not able to speculate on or quantify a precise percentage of shareholding of Full Smart and/or Dongying Shengli that would have been subjected to dispute should the HK Action or any other action in relation to the Proposed Subscription materialize. There is no assurance that the Group would not lose control over Full Smart and/or Dongying Shengli if the court was to adjudicate in favour of the Previous Potential Investor.

Moreover, there is no assurance that the Previous Potential Investor will not continue to initiate legal proceedings in the PRC to challenge the validity of the de-registration of the Dongying Shengli Charge. Our Company's Hong Kong legal advisers in respect of the Global Offering have received a letter, dated November 23, 2010, purportedly from the solicitors of the Previous Potential Investor, reiterating the Previous Potential Investor's challenge. Such action, if materialized and succeeded, could result in the invalidation of the De-registration Notice which in turn would result in the Dongying Shengli Charge remaining valid. In that case, the 2nd Dongying Shengli Equity Transfer would be invalidated and Dongying Shengli would continue to be wholly owned by Full Smart instead of King General.

In view of the above, our Controlling Shareholders, have undertaken to indemnify our Group against all damages, losses, expenses or liabilities which may arise as a result of, relating to or in connection with any action (whether initiated in Hong Kong, the PRC or elsewhere) in relation to the Proposed Subscription (including the HK Action). Notwithstanding that, (i) in the unlikely event that Unserved Writ is ultimately properly served (together with statement of claims for specified damages and/or declaratory relief) and the potential legal proceeding materializes and/or (ii) in the event that other action (whether initiated in Hong Kong, PRC or elsewhere) is brought against the Alleged Defendants, which results in an adjudication by the court of the relevant jurisdiction in favour of the Previous Potential Investor for declaratory relief on the shares of Full Smart and/or Dongying Shengli, our beneficial interests in Full Smart and/or Dongying Shengli may be adversely affected which in turn may have a material and adverse impact on the assets and financial results attributable to our Company and its shareholders.

In addition, due to the lack of a national litigation database and search system in the PRC, we were only able to conduct litigation searches against members of our Group at the Shandong provincial level and Dongying and Zibo city level. Although the results of these litigation searches did not reveal any litigation, arbitration or material claim against any members of our Group, due to the limited coverage of the database and search system, we and our Directors may not be aware of all the litigation, arbitration or claims that have been initiated against any of them in other cities or provinces in the PRC.

Our business depends substantially on the continuing efforts of our management and skilled employees as well as our ability to attract and retain qualified personnel, and our business may be severely disrupted if we lose their services.

We depend substantially on the continued services of our executive officers, senior management and our skilled employees, and on our ability to attract, train and retain qualified technical personnel, particularly those with expertise in the production technologies for maleic anhydride, BDO, PBS and PBS copolymers.

For instance, we employed Dr. Zhang since November 2009 as our chief technical officer to lead our PBS research team and assist us in implementing our PBS production technology and development of PBS and PBS copolymer products. We also have technology cooperation arrangement with the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University, where Dr. Zhang is also a professor and doctoral member of the Polymer Research Institute of the Sichuan University and a stationed member of the State Key Laboratory of Polymer Materials Engineering of Sichuan University. Accordingly, the development of our PBS facility has been, and will continue to be, heavily dependent upon the knowledge and skills of Dr. Zhang. While Dr. Zhang has entered into a service agreement with us, if Dr. Zhang were unable or unwilling to continue in his present position we may be unable to identify and recruit suitable replacements in a timely manner, or at all.

There is also substantial competition for qualified technical personnel, and there can be no assurance that we will be able to attract or retain our qualified technical personnel. In addition, additional qualified technical personnel will be required for the operation of our new production facilities in Zibo in the future. If one or more of our executive officers or key employees were unable or unwilling to continue in their employment with us, we might not be able to replace them with persons of equivalent expertise and experience within a reasonable period of time, or at all. Our business, prospects, financial condition and results of operations may be materially adversely affected, and we may incur additional expenses to recruit, train and retain personnel. Since our industry is characterized by high demand and intense competition for talent, we may not be able to attract or retain highly skilled employees or other key personnel that we will need to achieve our strategic objectives. As our business has grown rapidly, our ability to train and integrate new employees into our operations may not meet the growing demands of our business.

We may experience a shortage of labor or our labor costs may increase.

As we expand our production capacity and increase our production, our need for production personnel will increase despite the capital intensive nature of our production. We cannot assure you that we will not experience any shortage of labor for our production needs or that the cost of labor in China will not increase in the future. If we experience a shortage of labor, we may not be able to maintain our production volume. If labor costs increase in China, our production costs will increase and we may not be able to pass these increases to our customers due to competitive pricing pressures. Accordingly, if we experience a shortage of labor or our labor costs increase, our business, prospects, financial condition and results of operations may be adversely affected.

We may not be able to effectively manage our growth.

The planned increase to our production capacity will place significant strains on our management, systems and resources. To accommodate our growth, we anticipate the need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems, all of which require substantial management effort and additional

expenditure. We may fail to adequately address the risks frequently encountered by rapidly growing companies, including our potential failure to:

- maintain our profitability;
- maintain our production standards;
- expand our customer base and raise our brand recognition to increase sales of our products needed to accommodate our increased production;
- manage the logistics, utility and supply needs of our expanded operations;
- anticipate and adapt to any changes in government regulation, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics;
- maintain adequate control over our expenses; or
- attract, train, motivate and retain qualified personnel.

We cannot assure you that we will be able to manage our growth effectively, and any failure to do so may have a material adverse effect on our business, prospects, financial conditions and results of operations.

Mr. Zhang, our Controlling Shareholder, will have substantial influence over us and there may be conflicts of interest between our Controlling Shareholders, us and our other Shareholders.

Immediately after completion of the Capitalization Issue and the Global Offering, Mr. Zhang will, through his shareholding in Apex Wide, own approximately 40.5% of our issued share capital (assuming the Over-allotment Option or any option to be granted under the Share Option Scheme is not exercised). Accordingly, Mr. Zhang, through Apex Wide, can exercise voting power at Shareholders' meetings and delegate member(s) to our Board and exert significant influence over our management and corporate policies, including our development strategies, capital expenditure, dividend distribution plan and corporate opportunities. In addition, circumstances may arise in which the Controlling Shareholders' interest may conflict with your interests. Potential conflicts of interest with our Controlling Shareholders may include matters relating to:

- the provisions of our Articles of Association, causing us to adopt amendments to our Articles of Association, including amendments that are not in the best interest of our other Shareholders;
- determining the outcome of most corporate actions which, subject to the applicable laws and regulations and requirements of the Hong Kong Stock Exchange, can cause us to effect corporate transactions without the approval of our other Shareholders;

- approval of potential mergers or acquisitions, asset sales, and other significant corporate transactions, including transactions which may lead to a change of control of our company;
- issuance of securities;
- investment decisions and decisions relating to capital expenditure;
- enforcement of contractual rights; and
- payment of dividends and other distributions.

Mr. Zhang will have the ability to control our management and administration, including the appointment of a majority of our Directors and, indirectly, the appointment of our executive officers through those Directors. So long as the Mr. Zhang continues to own a significant amount of our equity, even if such amount is less than 50% of the issued and outstanding Shares, he will continue to be able to strongly influence or effectively control our decisions.

We rely on dividends paid out of the profits generated by our PRC subsidiaries for foreign currency needs of other non-PRC members of our Group after the Listing.

We are a holding company incorporated in the Cayman Islands and conduct substantially all of our operations through our PRC subsidiaries. Therefore, the availability of funds to pay dividends to our Shareholders, service our foreign currency denominated indebtedness and pay for our off-shore expenditure depends upon dividends received from these subsidiaries. Regulations in the PRC currently permit payment of dividends by PRC subsidiaries only out of accumulated profits as determined in accordance with accounting standards and regulations in China. According to the applicable PRC laws and regulations, each of our PRC subsidiaries is required to maintain a general reserve fund and a staff welfare and bonus fund. Each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Contributions to such reserves are made from each of our PRC subsidiaries' net profit after taxation. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

As a result of these PRC laws and regulations, each of our PRC subsidiaries is restricted in its ability to transfer its net profit to us in the form of dividends. We will rely on dividends paid by our PRC subsidiaries for future foreign currency needs of other non-PRC members of our Group that cannot be provided by equity issuance or borrowings. If our PRC subsidiaries cannot pay dividends due to government policy and regulations, or because they cannot generate the requisite cash flow, we may not be able to pay dividends, service our foreign currency denominated indebtedness or pay our off-shore expenditure, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our Company and its subsidiaries did not pay nor declare any dividends during the Track Record Period.

Dividends declared in the past may not be indicative of our dividend policy in the future.

Our Directors may declare dividends after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, the Memorandum and Articles of Association, the Cayman Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. For further details of our dividend policy, please refer to the paragraph headed "Dividend policy" under the section headed "Financial information" in this prospectus. Our future declaration of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. There is no assurance that the amount of dividend declared by our Company in the future, if any, will be at a level comparable with that in the past.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Substantially all of our business assets and operations are in the PRC, and all of our revenue is derived from our operations in the PRC. Accordingly, our results of operations, financial position, performance and prospects are subject, to a significant degree, to the economic, political and legal developments in the PRC, including the following risks:

Adverse changes in political and economic policies of the PRC government may have a material adverse effect on the overall economic growth of China, which may reduce the demand for our products and materially and adversely affect our competitive position.

All of our business operations are conducted in China and all of our sales are made in China. Accordingly, we expect our business, financial condition, results of operations and prospects to be affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the fact that it:

- has a high level of government involvement;
- is in the early stages of development towards a market-oriented economy;
- has experienced a rapid growth rate;
- has a tightly controlled foreign exchange; and
- has demonstrated the inefficient allocation of resources.

Since 1978, China has been one of the world's fastest growing economies in terms of GDP growth. However, the growth has been uneven, both geographically and among various sectors of the economy. In transitioning from a planned economy to a more market-oriented economy, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on our business. For example, our business, prospects, financial condition and results of operations may be

adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

In addition, due to China's increasingly close trading relationship with the United States, Europe and other Asian countries, an economic slowdown or economic crisis in these countries could have a material adverse impact to China. More particularly, the recent global financial crisis that originated in the United States had resulted in an adverse impact on China's economy and had led the Chinese government to implement unprecedented stimulus plans and measures with the aim of restoring economic stability. China has since experienced an economic recovery better than most other major economies as a result of such government efforts. However, as the effects of those stimulus plans and measures wear out, the Chinese economy may or may not be able to sustain its recovered state or resume growth independently and may revert to a general economic downturn. Our business, prospects, financial condition and results of operations may be materially and adversely affected as a result.

Recent regulations relating to offshore investment activities by PRC residents may limit our ability to acquire PRC companies and may adversely affect our business, prospects, financial condition and results of operations.

In October 2005, SAFE promulgated Circular No. 75. Circular No. 75 states that if PRC residents use assets or equity interests in their PRC entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, they must register with local SAFE branches with respect to their overseas investments in offshore companies. They must also file amendments to their registrations if their offshore companies experience material events, such as changes in share capital, share transfers, mergers and acquisitions, spin-off transactions, long-term equity or debt investments or creation of any security interest in any assets located in China. Under Circular No. 75, failure to comply with the registration procedures set forth in such regulation may result in restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its offshore parent, as well as restrictions on the capital inflow from the offshore entity to the PRC entity.

Any future failure by any one of our Shareholders who is a PRC resident, or controlled by a PRC resident, to comply with relevant requirements under Circular No.75 may subject our Company to fines or sanctions imposed by the PRC government, including restrictions on our subsidiaries' ability to pay dividends or make distributions to us and our ability to increase our investment in or to provide loans to our subsidiaries.

As it is uncertain how SAFE will interpret or implement its circular, we cannot predict how this circular and other SAFE circulars will affect our business operations or future strategies. For example, we may be subject to more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our business, prospects, financial condition and results of operations.

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

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

A new PRC tax law increases the enterprise income tax rate applicable to our subsidiaries in China, which may have a material adverse effect on our results of operations.

On March 16, 2007, the National People's Congress approved the draft bill of the PRC EIT Law, which became effective on January 1, 2008. The PRC EIT Law adopts a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises, or FIEs) and revokes the current tax exemptions, reductions and preferential treatments applicable to foreign-invested enterprises. The PRC EIT Law also provides for transitional measures for enterprises established prior to the promulgation of the PRC EIT Law and eligible for lower tax rate preferential treatment in accordance with the then prevailing tax laws and administrative regulations. These enterprises will gradually become subject to the new, unified tax rate over a five-year period; enterprises eligible for regular tax reductions or exemptions may continue to enjoy tax preferential treatments after the implementation of the PRC EIT Law and until their preferential treatments expire. The preferential treatment period of enterprises which have not enjoyed any preferential treatments for the reason of not having made any profits, however, shall be deemed as starting from the implementation of the PRC EIT Law.

In addition, under the PRC EIT Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC may be considered a resident enterprise and will normally be subject to the enterprise income tax at the rate of 25% of its global income. On December 6, 2007, the Implementation Rules for PRC Enterprise Income Tax Law, or the Implementation Rules, was promulgated by the PRC State Council. The Implementation Rules provide that the term "de facto management bodies" refers to management bodies with material management and control in all aspects over, without limitation, the production, operation, personnel, finance and assets of the enterprise. However, the Implementation Rules have been promulgated only recently and their implementation has yet to be further clarified in practice. Notwithstanding our status as the Cayman Islands holding company of our business, since most of our management is currently located in the PRC, there is no assurance that we will not be

classified by the PRC taxation authorities to be a resident enterprise in the future, in which case our global income will be subject to PRC income tax at a tax rate of 25% and our financial condition and results of operation may be adversely affected.

Furthermore, pursuant to the PRC EIT Law, if we are determined by the PRC taxation authorities to be a resident enterprise, we would be obligated to withhold PRC income tax of up to 5% on payments of dividends on our shares to investors that are non-resident enterprises of the PRC located in Hong Kong and 10% on payments of dividends on our Shares to investors that are non-resident enterprises of the PRC located outside Hong Kong. In addition, any gain realized by any investors who are non-resident enterprises of the PRC from the transfer of our Shares could be regarded as being derived from sources within the PRC and be subject to a 10% PRC withholding tax. Such PRC withholding tax would reduce your investment return on our Shares and may also materially and adversely affect the price of our Shares.

Because the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations and rules are not always uniform and such uncertainties may have a material adverse effect on us.

We conduct all of our production operations through our wholly-owned subsidiaries established in China, which are subject to laws and regulations applicable to foreign investments in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited value as precedents. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the preemption of local regulations by national laws, or the overturn of local government's decisions by the national government. These uncertainties may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us, our management or the experts named in the prospectus.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, all of our Directors and executive officers reside within China or Hong Kong. As a result, it may not be possible to effect service of legal processes outside China or Hong Kong (as the case may be) upon some of our Directors and senior executive officers, including with respect to matters arising under applicable securities laws. Moreover, our PRC legal counsel has advised that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. In addition, according to PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment if they decide that

the judgment violates the basic principles of PRC Laws or national sovereignty, security or public interest. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

The Chinese economy may experience inflationary pressure, which may lead to an increase in interest rates and a slowdown in economic growth.

In response to concerns regarding China's high rate of growth in industrial production, bank credit, fixed investment and money supply, the PRC government has taken measures to slow down economic growth to a more manageable level. Among the measures that the PRC government has taken are restrictions on bank loans in certain sectors. These measures have historically contributed to a slowdown in economic growth in China and a reduction in demand for consumer goods. These measures and any additional measures, including a possible increase in interest rates, could contribute to a further slowdown in the Chinese economy.

Fluctuation in exchange rates may have a material adverse effect on your investment.

All of our sales are denominated in Renminbi. Fluctuations in exchange rates, particularly among the U.S. Dollar, Renminbi and Hong Kong Dollar, may affect our net profit margins and may result in fluctuations in foreign exchange and operating gains and losses. We have not used any other forward contracts, currency options or borrowings to hedge our exposure to foreign currency exchange risk. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

The change in value of the Renminbi against the U.S. Dollar, Hong Kong Dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. Dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 21.0% appreciation of Renminbi against the U.S. Dollar between July 2005 and October 2010. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which may result in a further and more significant appreciation of the Renminbi against the U.S. Dollar. To the extent that we need to convert Hong Kong Dollar and U.S. Dollars we receive from the Global Offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. Dollar and Hong Kong Dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert our Renminbi into Hong Kong Dollar and U.S. Dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the U.S. Dollar and Hong Kong Dollar against the Renminbi would have a negative effect on the Hong Kong Dollar and U.S. Dollar amount available to us.

In addition, an appreciation in the value of the Renminbi against foreign currencies may make our BDO (and, in the future, our PBS and PBS copolymers) more expensive for our international customers (if any in the future) as well as reduce the competitiveness of our PRC customers in the international market, thus potentially affecting our sales and profitability negatively. Furthermore, many of our competitors are foreign companies that could benefit from such a currency fluctuation, making it more difficult for us to compete with these companies.

An outbreak of any severe communicable disease in the PRC may have an adverse effect on the economies of certain Asian countries and may adversely affect our results of operations.

The outbreak of any severe communicable disease in the PRC could have a material adverse effect on the overall business sentiment and environment in the PRC, which in turn may have a material adverse effect on domestic consumption and overall GDP growth. As all of our revenue is currently derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect our business, prospects, financial condition and results of operations. In addition, if our employees are affected by any severe communicable disease, we may be required to close our facilities or institute other measures to prevent the spread of the disease, which may disrupt our operations. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which may lead to reduced orders or scarcity of raw materials, respectively.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

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

Prior to the Listing, there has been no public market for our Shares. The Offer Price so determined will be the result of negotiations between the Joint Global Coordinators (on behalf of the Underwriters) and us, and may differ from the market prices for our Shares after Listing. We have applied to the Hong Kong Stock Exchange for the listing of, and permission to deal in our Shares. However, there is no assurance that the Listing will result in the development of an active and liquid public trading market for our Shares. The market price, liquidity and trading volume of our Shares may be volatile. Factors that may affect the volume and price at which our Shares will be traded include, among other things, variations in our revenue, earnings, cash flows, announcements of new investments and changes in laws and regulations in China. We can give no assurance that these developments will not occur in the future. In addition, Shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in the PRC have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

Current volatility in the global financial markets could cause significant fluctuations in the price of our Shares.

Financial markets around the world have been experiencing heightened volatility and turmoil since 2008. Upon listing, the price and trading volume of our Shares will likely be subject to similar market fluctuations which may be unrelated to our operating performance or prospects. Factors that may significantly impact the volatility of our stock price include:

- developments in our business or in the financial sector generally, including the effect of direct governmental actions in the financial markets;
- the operating and share price performance of companies that investors consider to be comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and
- changes in global financial markets, global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

As a result of these market fluctuations, the price of our Shares may decline significantly, and you may loose a significant value on your investments.

Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of our Shares is higher than the net tangible assets book value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in the pro forma consolidated net tangible asset book value, which amounted to HK$1.57 per Share based on the maximum Offer Price of HK$3.33 per Share.

In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience further dilution in the net tangible asset book value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset book value per Share.

The laws of the Cayman Islands relating to the protection of interest of minority shareholders are different from those in Hong Kong.

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. These differences may mean that our minority Shareholders may have different protections than they would have under the laws of Hong Kong. A

summary of Cayman Islands law on the protection of minority shareholders is set out in "Summary of the constitution of our Company and the Cayman Islands Company Law" in Appendix V to this prospectus.

Future sales of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares.

The Shares held by our Controlling Shareholders are subject to certain lock-up periods. See the section headed "Underwriting" in this prospectus for further information. We cannot assure you that, after such restrictions expire, our Controlling Shareholders will not dispose of any Shares. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of our Shares.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy successfully.

We believe that our existing cash and cash equivalents together with the net proceeds from this Global Offering will be sufficient to meet our anticipated cash needs for the next 12 months following the Listing. The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on a number of factors, including market acceptance of our products, the need to adapt to changing technologies and technical requirements, and the existence of opportunities for expansion.

If our capital resources are insufficient to satisfy our liquidity requirements in the future, we may seek to raise additional funds through the issue of new equity securities or debt securities or obtain debt financing. The issue of additional equity securities or convertible debt securities by our Company other than on a pro-rata basis will result in additional dilution to our Shareholders, and such convertible securities so issued may confer rights and privileges that take priority over those conferred by our Shares. On the other hand, additional debt would result in increased expenses and could result in covenants that would restrict our operations. We have not made arrangements to obtain additional financing, and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to us, if at all.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the Chinese economy and China's petrochemical industry contained in this prospectus.

Certain facts and statistics in this prospectus related to the PRC, its economy and the industries in which we operate within the PRC are derived from public and official government publications generally believed to be reliable. While we believe that the sources of such facts and statistics are appropriate sources for such facts and statistics and have taken reasonable care to extract or reproduce such information, we cannot guarantee the quality and reliability of such source materials. These facts and statistics have not been independently verified by us, the Joint Sponsors or the Underwriters or any of our or their respective affiliates or advisers and, therefore, neither we nor any of the Joint Sponsors or

Underwriters make any representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate and the statistics may not be comparable to statistics produced for other economies. Furthermore, there can be no assurance that they are stated or compiled on the same basis or with the same degree or accuracy as may be the case in other jurisdictions. Investors should carefully consider how much importance they should attach to such facts and statistics.

In preparation for the Listing, our Company has sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we are required to have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. At present, the Board consists of four executive Directors. Save for Mr. Wong Yee Shuen Wilson, all other executive Directors ordinarily reside in the PRC. Since our principal business operations are primarily located in the PRC, most of the senior management members of our Group are, and are expected to continue to be, based in the PRC. Therefore, for the purpose of our Group's operations, our Directors consider that it is not necessary for our Group to relocate an executive Director to Hong Kong or to appoint one additional executive Director who ordinarily resides in Hong Kong. Accordingly, we have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Hong Kong Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

(a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Hong Kong Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorized representatives appointed are Mr. Huang Cheng, an executive Director and our chief executive officer and Mr. Wong Yee Shuen Wilson, an executive Director, our chief financial officer and company secretary. Each of them will be available to meet with the Hong Kong Stock Exchange in Hong Kong upon short notice and will be readily contactable by telephone, facsimile or e-mail. Each of the two authorized representatives has been duly authorized to communicate on behalf of our Company with the Hong Kong Stock Exchange;

(b) We have appointed CCB International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as our Company's communication channel with the Hong Kong Stock Exchange when the authorized representatives are not available;

(c) The authorized representatives have means to contact all members of our Board (including the non-executive Directors and the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the members of our Board for any matters. We will implement a policy whereby (i) each Director will provide his or her mobile phone number, residential phone number, facsimile number and e-mail address to the authorized representatives; (ii) each Director will provide valid phone numbers or means of communication to the authorized representatives when he or she is travelling; and (iii) each Director will provide his or her mobile phone number, residential phone number, office phone number, facsimile number and e-mail address to the Hong Kong Stock Exchange;

(d) Mr. Wong Yee Shuen Wilson, an executive Director, our chief financial officer and company secretary, is ordinarily resident in Hong Kong. He will (i) provide his office phone number, mobile phone number, facsimile number and e-mail address to the Hong Kong Stock Exchange; and (ii) have the office phone numbers, mobile phone numbers, residential phone numbers, facsimile numbers and e-mail addresses of all the Directors and the authorized representatives;

(e) Meetings between the Hong Kong Stock Exchange and the Directors could be arranged through the authorized representatives or our compliance adviser, or directly with the Directors within a reasonable time frame. We will inform the Hong Kong Stock Exchange promptly in respect of any change in our authorized representatives and compliance adviser; and

(f) All of the Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Hong Kong Stock Exchange within a reasonable period of time, when required.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Hong Kong Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material aspect and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this prospectus misleading.

THIS PROSPECTUS AND THE HONG KONG PUBLIC OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain all the terms and conditions of the Hong Kong Public Offering.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Hong Kong Public Offering to give any information or to make any representation not contained in this prospectus. Any information or representation not contained in this prospectus must not be relied upon as having been authorized by our Group, the Joint Sponsors, the Joint Global Coordinators, any of the Underwriters, any of their respective directors, officers or any other person or party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as at any subsequent time.

UNDERWRITING

The Hong Kong Public Offering is part of the Global Offering which comprises the offering of initially 29,250,000 Hong Kong Offer Shares and initially 263,250,000 International Offer Shares.

The Listing is sponsored by the Joint Sponsors. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Group and the Joint Global Coordinators, on behalf of the Underwriters, agreeing on the Offer Price.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. If, for any reason, the Offer Price is

not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us by the Price Determination Date, the Global Offering will not become unconditional and will lapse. Further information about the Underwriters and the underwriting arrangements is set out in the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON THE USE OF THIS PROSPECTUS

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

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

Application has been made to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option), the Capitalization Issue, and the Shares which may fall to be allotted and be issued pursuant to the exercise of options that may be granted under the Share Option Scheme.

No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

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

ELIGIBILITY FOR CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day (as defined in the Listing Rules) after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

HONG KONG REGISTER OF MEMBERS

All Shares issued and sold pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our register of members to be maintained in Hong Kong. We will maintain our principal register of members in the Cayman Islands.

Unless we determine otherwise, dividends payable in Hong Kong dollars in respect of Shares will be paid to Shareholders listed on our Hong Kong share register, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

STAMP DUTY

Dealings in the Shares registered on our Hong Kong share register will be subject to Hong Kong stamp duty. Dealings in the Shares registered on our principal register of members maintained in the Cayman Islands will not be subject to Cayman Islands stamp duty unless our Company holds an interest in land in the Cayman Islands.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in, our Shares, you should consult an expert.

We emphasize that none of the Joint Sponsors, the Joint Global Coordinators, the Underwriters or us, any of our or their respective directors, officers or any other person or party involved in the Global Offering accepts responsibility for your tax effects or liability resulting from your subscription for, purchase, holding or disposing of, or dealing in, our Shares or your exercise of any rights attaching to our Shares.

STABILIZATION AND OVER-ALLOTMENT

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager (or its affiliates or any person acting for it), as stabilizing manager, may (but shall not be obliged), for its own account as principal or on behalf of any Underwriters, but not as agent for the Company, to the extent permitted by applicable laws and regulatory requirements of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilizing transactions (in the market or otherwise and whether in Hong Kong or elsewhere) with a view to stabilizing or maintaining the market price of the Shares at such prices, in such amounts and in such manner as the Stabilizing Manager or its affiliates or any person acting for it may determine and at levels other than those which might otherwise prevail in the open market. CCB International Capital Limited has been or will be appointed as the Stabilizing Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO and, should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it.

In connection with the Global Offering, we intend to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators, on behalf of the International Underwriters, under which we may be required to allot and issue up to an aggregate of 43,875,000 additional Shares to, among other things, cover over-allocations in the International Offering.

Further details with respect to the Over-allotment Option and stabilization are set out in the paragraph headed "Over-allotment Option and stabilization "under the section headed "Structure of the Global Offering" in this prospectus.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set out in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Details of the conditions of the Hong Kong Public Offering are set out in the paragraph headed "Conditions of the Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Hong Kong Public Offering and the International Offering, including their respective conditions, and the Over-allotment Option, are set out in the section headed "Structure of the Global Offering" in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Zhang Kaijun (張凱鈞)	Villa Qu, Fangcaodi Gaoxin District Zibo City Shandong Province PRC	Chinese
Huang Cheng (黃澄)	Room 502 No. 13 Huanglong Road, 263 Nong Pudong New Area Shanghai City PRC	Chinese
Lu Wei (盧偉)	Hexiangyuan Xiaoqu Xiwu Road Zhangdian District Zibo City Shandong Province PRC	Chinese
Wong Yee Shuen Wilson (黃以信)	Flat 4A, Block 9 16 La Salle Road Kowloon Hong Kong	Chinese
Non-executive Directors		
Qin Kebo (秦克波)	Room A505, 12th Floor Rongchao Garden Buji Longgang Shenzhen City Guangdong Province PRC	Chinese
Wu Chi Chiu (胡志釗)	Flat E, 3rd Floor Yat Tien Mansion Taikoo Shing Hong Kong	Chinese

Name	Residential address	Nationality
Independent non-executive Directors		
Chan Ngai Sang Kenny (陳毅生)	House A1 Jade View Villa 20 Tsing Tai Road Siu Lam Tuen Mun Hong Kong	Chinese
Guo Tianyong (郭田勇)	Jiaogong Jiti No. 39 South College Road Haidian District Beijing City PRC	Chinese
Lee Kwan Hung (李均雄)	Flat D, 26th Floor, Blk 2 Ronsdale Garden 25 Tai Hang Drive Jardine's Lookout Hong Kong	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors	CCB International Capital Limited 34th Floor Two Pacific Place 88 Queensway Admiralty Hong Kong Piper Jaffray Asia Limited Suite 1308 Two Pacific Place 88 Queensway Admiralty Hong Kong
Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	CCB International Capital Limited 34th Floor Two Pacific Place 88 Queensway Admiralty Hong Kong Piper Jaffray Asia Securities Limited Suite 1308 Two Pacific Place 88 Queensway Admiralty Hong Kong Macquarie Capital Securities Limited Level 18, One International Finance Centre 1 Harbour View Street Central Hong Kong
Co-Managers	China Everbright Securities (HK) Limited 36/F, Far East Finance Centre 16 Harcourt Road, Central Hong Kong Guotai Junan Securities (Hong Kong) Limited 27/F., Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong Kingston Securities Limited Suites 2801-2808 28th Floor One International Finance Centre 1 Harbour View Street Central Hong Kong

Legal advisers to the Company

as to Hong Kong law:
Li & Partners
22nd Floor
World Wide House
Central
Hong Kong

as to United States law:
Dorsey & Whitney
Suite 3008
88 Queensway
One Pacific Place
Admiralty
Hong Kong

as to PRC law:
Jun He Law Offices
32nd Floor
Shanghai Kerry Centre
1515 Nanjing Road West
Shanghai
PRC

as to Cayman Islands law:
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Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Legal advisers to the Joint Sponsors and the Underwriters

as to Hong Kong and United States law:
Orrick, Herrington & Sutcliffe
43rd Floor
Gloucester Tower
The Landmark
15 Queen's Road
Central
Hong Kong

as to PRC law:
Haiwen & Partners
21st Floor, Beijing Silver Tower
No.2 Dong San Huan North Road
Chaoyang District
Beijing
PRC

Reporting accountants	Ernst & Young *Certified Public Accountants* 18th Floor Two International Finance Centre 8 Finance Street Central Hong Kong
Property valuer	Jones Lang LaSalle Sallmanns Limited 17th Floor Dorset House Taikoo Place 979 King's Road Quarry Bay Hong Kong
Receiving banks	Industrial and Commercial Bank of China (Asia) Limited 33rd Floor ICBC Tower 3 Garden Road Central Hong Kong Standard Chartered Bank (Hong Kong) Limited 15th Floor Standard Chartered Tower 388 Kwun Tong Road Kowloon Hong Kong

Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in the PRC	No. 138 Zhongrun Road Hi-tech Zone Zibo City Shandong Province PRC
Place of business in Hong Kong	Suites 2012 – 2013 Level 20, Two Pacific Place 88 Queensway Admiralty Hong Kong
Company's website	www.china-newmaterials.com.hk (information contained in this website does not form part of this prospectus)
Company secretary	Wong Yee Shuen Wilson (黃以信) *(FCPA)*
Authorized representatives	Wong Yee Shuen Wilson (黃以信) *(FCPA)* Flat 4A, Block 9 16 La Salle Road Kowloon Hong Kong Huang Cheng (黃澄) Room 502 No. 13 Huanglong Road, 263 Nong Pudong New Area Shanghai PRC
Members of the Audit Committee	Chan Ngai Sang Kenny (陳毅生) *(Chairman) (CPA)* Guo Tianyong (郭田勇) Lee Kwan Hung (李均雄)
Members of the Nomination Committee	Guo Tianyong (郭田勇) *(Chairman)* Chan Ngai Sang Kenny (陳毅生) *(CPA)* Zhang Kaijun (張凱鈞)

Members of the Remuneration Committee	Lee Kwan Hung (李均雄) *(Chairman)* Guo Tianyong (郭田勇) Zhang Kaijun (張凱鈞)
Principal bankers	Agricultural Bank of China Kenli Dense Oil Factory Branch Dense Oil Factory No. 2, Haochun Road Dongying District Dongying City Shandong Province PRC Agricultural Bank of China Bingzhou Changshan Branch Changshan Town Zhouping County Shandong Province PRC Industrial and Commercial Bank of China Dongying Branch No.110, Jinan Road Dongying City Shandong Province PRC Bank of Communications North Qingdao City First Branch No.138, Weihai Road Northern District Qingdao City Shandong Province PRC Agricultural Bank of China Zibo National New & Hi-tech Industrial Park Branch Zhengtong Road Zibo National New & Hi-tech Industrial Park Zibo City, Shandong Province PRC

	Qishang Bank Huajiao City Branch Zhongrun Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province PRC
Cayman Islands principal share registrar and transfer office	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Compliance adviser	CCB International Capital Limited 34th Floor Two Pacific Place 88 Queensway Admiralty Hong Kong

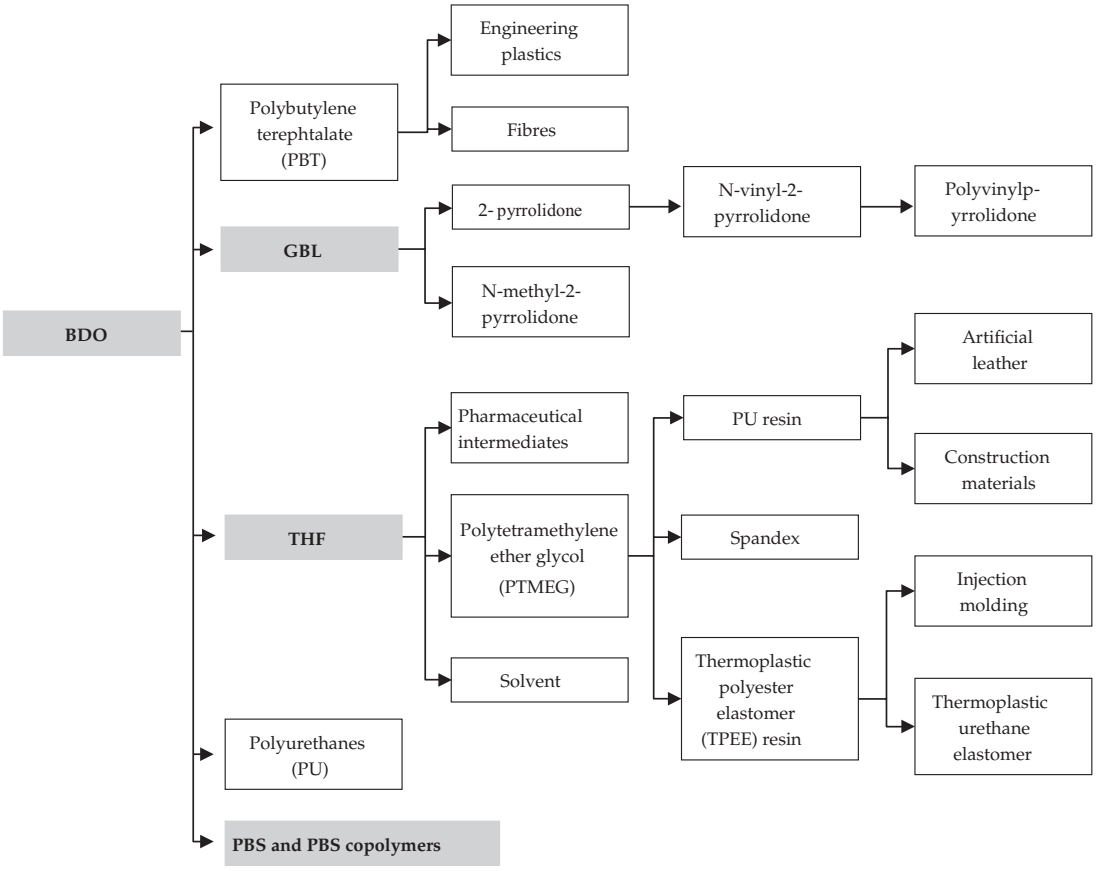
This section contains certain information and statistics concerning the BDO, PBS and PBS Copolymer industries in China. We have derived the information and data partly from Beijing Huajing Consulting Limited, Freedonia Custom Research Inc., publicly available information, official government publications and industry research reports, which have not been independently verified by us, the Joint Sponsors, the Underwriters or any of their respective affiliates and advisers. We have taken such care as we consider reasonable in the extraction, compilation and reproduction of such information. The information in such sources may not be consistent with information compiled by other institutions within or outside China. We make no representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied upon.

INTRODUCTION OF BDO

BDO, known by its chemical name of 1, 4-Butanediol, is a saturated carbon-4 straight-chain dibasic alcohol, having a molecular formula of $C_4H_{10}O_2$. BDO is a colorless and almost odorless viscous liquid at room temperature. It is an important basic organic chemical raw material and a feedstock of fine chemicals such as tetrahydrofuran/polytetramethylene ether glycol (THF/PTMEG), polybutylene terephthalate (PBT), gamma-butyrolactone (GBL), polyurethane (PU) and other solvents. These chemicals are widely used in fibres, engineering plastics, medicines, cosmetics, artificial leather, pesticides, plasticizers, hardener, solvent and rust remover etc. According to the Huajing Report prepared by Beijing Huajing, the immediate downstream product which accounts for the largest consumption of BDO in China is THF. It accounted for approximately 41.2% of total BDO consumption in China in 2009.

BDO is an acetylene-series chemical product of which production can be traced back to the 1930s. In the past few years, leveraged on the rapid development of downstream chemicals such as PBT, PU, PTMEG, THF and GBL, the BDO market has experienced significant growth. BDO is also a principal feedstock in the manufacture of PBS and PBS copolymers. (Further information on PBS and PBS copolymers is provided in the later paragraphs of this section). According to the Huajing Report prepared by Beijing Huajing, demand for BDO in China has increased from 141,000 tons to 252,000 tons between 2005 and 2009, representing a CAGR of 15.6%.

The diagram below illustrates the derivative and downstream product tree of BDO.



PBT

PBT is an immediate downstream product of BDO and is known by its chemical name of polybutylene terephthalate. It is a semi-crystalline, white or off-white thermoplastic polyester with high heat resistance and superior electrical insulation properties. PBT is suitable for a variety of applications including automotive headlamps and taillamps, encapsulation of transformers/motors/solenoids, capacitors and electronic components, circuit breakers, lamp sockets and connectors, etc.

GBL

GBL is an immediate downstream product of BDO and is known by its chemical name of γ-butyrolactone, having a molecular formula of $C_4H_6O_2$. It is a colorless and oily liquid at room temperature with a weak characteristic odor and is soluble in water. It offers excellent solvent quality with low toxicity and diminished environmental concerns.

GBL has a wide range of applications, including cosmetics, hair sprays, germicides and tablet binders. GBL is used for manufacturing N-methyl-2-pyrrolidone, a dipolar aprotic solvent which is used as intermediary for the synthesis of agrochemicals, pharmaceuticals, textile auxiliaries, plasticizers, stabilizers and specialty inks, and by the electronics industry for printed circuit board manufacturing. It is also used in the manufacture of 2-pyrrolidone, an intermediary product in the manufacture of polyvinylpyrrolidone, which in turn is used in the production of tablet binders, hair fixative preparations, adhesives, coatings and inks, photoresist, paper, photography, textiles and fibers applications.

THF

THF is an immediate downstream product of BDO and represents the most popular use for BDO. It is known by its chemical name of tetrahydrofuran, having a molecular formula of C_4H_8O. THF is a colorless, water miscible organic liquid with low viscosity at standard temperature and pressure.

THF is mainly used as a precursor to polymers and is often used to produce PTMEG, which in turn is a reactant for making other polymers. PTMEG is used in the manufacture of castable and thermoplastic polyurethanes, thermoplastic polyester elastomers and polyurethane fibers (spandex), which are commonly found in industrial and commercial end products, from caster wheels, industrial tires, mining screens, industrial belts, cable jacketing, hot-melt coatings hoses, tank and pipe liners, adhesives and sealants, to skate wheels, ski boots, transparent films for laminating, medical tubing, fabric and leather coatings and artificial leather. Due to its broad solvency for both polar and non-polar compounds, THF is used as a solvent in many pharmaceutical syntheses. In addition, THF's high volatility and very high purity facilitate solvent removal and recovery without leaving residues on the products.

PU

PU is an immediate downstream product of BDO and is known by its chemical name of polyurethane, having a molecular formula of $C_{25}H_{42}N_2O_6$. It was introduced commercially a long time ago into the market of high performance synthetic polymers. Its physical and chemical properties vary over a wide range, depending on the constituent monomers and reaction conditions. Therefore, PU is extremely versatile plastics, available in a variety of forms ranging from flexible or rigid foams to elastomers, coatings, adhesives, sealants, spandex fibers and hard plastic parts, etc.

PBS and PBS Copolymers

See paragraph headed "Introduction of degradable polymers" under this section.

BDO PRODUCTION TECHNOLOGY

At present, there are four major BDO production methods commonly employed, namely the REPPE Process, the DAVY Process, the butadiene acetoxylation process and the propylene oxide process. A brief comparison of each of the methods is as follows:

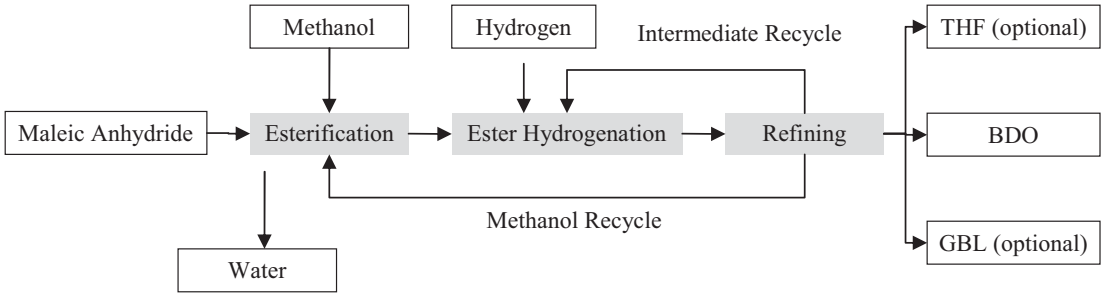
Production Method		Advantage	Disadvantage
REPPE Process	**Traditional**	– Mature technology – Short production process and high production efficiency – Low operating cost	– Feedstock acetylene is dangerous for long distance transport – Stringent operating conditions and high pressure in production – Limited availability of cheap acetylene – Expensive equipments
	Refined	– Mature technology – Short production process and high production efficiency – Active catalyst with long life – Low investment and suitable for mass production – Safe production process with low pressure	– Feedstock acetylene is dangerous for long distance transport – Limited availability of cheap acetylene
DAVY Process		– Low investment cost and production cost – Mild reaction conditions – High efficiency of esterification	– Long production process
Butadiene Acetoxylation Process		– Feedstock is widely available – Mild operating conditions – Little liquid waste produced – Co-production of THF	– Long and complicated production process – High investment cost – Energy consuming – Serious erosion of equipment
Propylene Oxide Process		– Catalyst has long life – Low investment cost – Simple production technology – Efficient utilization of stream from the production process	– More by-products produced

The global BDO industry has been shifting away from the acetylene-based REPPE process to other cheaper processes using propylene, butadiene, or butane/maleic anhydride as the principal feed material. According to the Huajing Report prepared by Beijing Huajing, in 2008, over 80% of BDO production capacity in the world was still employing the REPPE Process while most of the newly built BDO production facilities employed the DAVY Process.

DAVY PROCESS FOR BDO PRODUCTION

The DAVY Process can jointly produce BDO and two of its derivative products, namely THF and GBL, in adjustable ratios. It uses maleic anhydride as principal feedstock, which can be obtained by the oxidation of butane or benzene.

During the process, maleic anhydride is esterified with a solid esterification catalyst under a reaction column to form a di-methyl maleate intermediate ester which is then hydrogenated in the gaseous state to produce a mixture of BDO, GBL and THF. By varying the operating conditions and catalyst usage, the output ratio between BDO and THF can be adjusted to suit the needs of the producer. On the other hand, GBL is always produced during the production process and can either be recycled or extracted as required. The chart below illustrates the DAVY Process in BDO production.



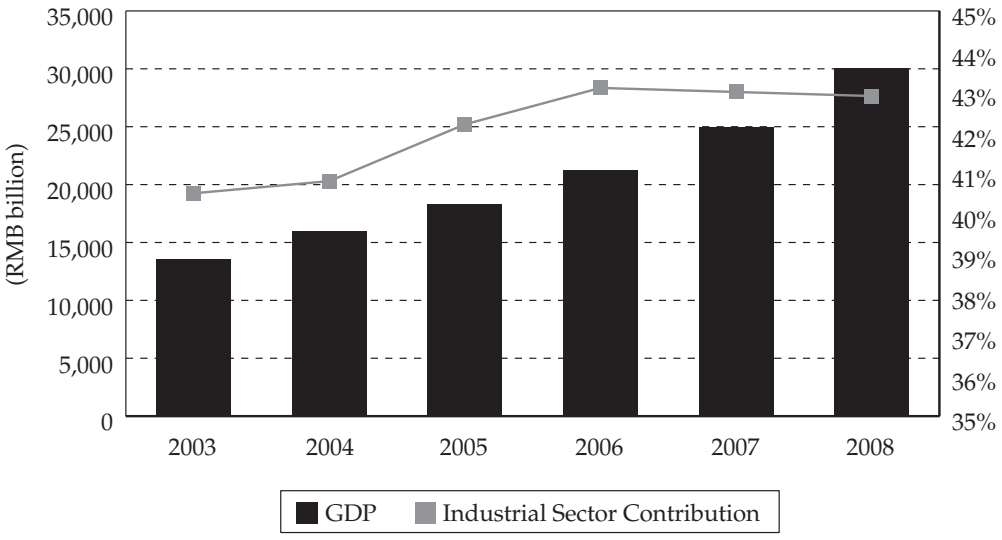
Source: DAVY Process Technology Limited

The DAVY Process generally requires a lower cost of investment and production. It is considered as an efficient, safe and reliable process among the four major BDO production methods commonly adopted nowadays and is capable of producing high-graded BDO with a higher purity level than those manufactured from REPPE Process.

CHINA CHEMICAL MATERIALS MARKET

Since BDO is an important basic organic chemical raw material and a feedstock of fine chemicals such as THF/PTMEG, PBT, GBL, PU and other solvents, its market demand is influenced by the overall development of China's economy and chemical industry. Leveraged on the rapid economic development of China in the past few years, China's industrial and chemical sector has also experienced accelerated growth. According to the China Statistical Yearbook, between 2003 and 2008, China's GDP contribution from industrial sector increased from approximately RMB5,495 billion to RMB12,911 billion, representing a CAGR of 18.6% and surpassing the CAGR of the overall GDP of 17.2%.

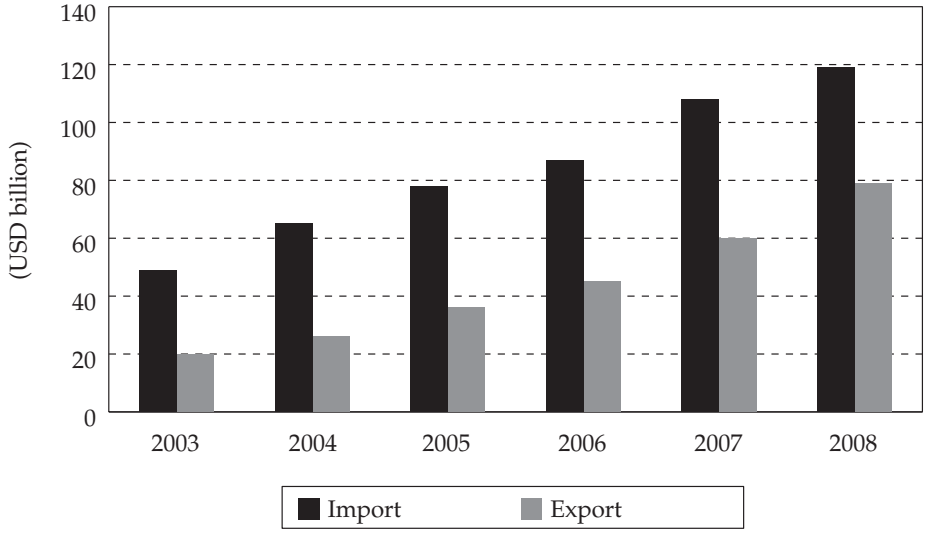
Gross Domestic Product of China



Source: China Statistical Yearbook 2009

Owing to the development of China's chemical manufacturing industry, import and export activities of chemicals and related products have also been enhanced. According to the China Statistical Yearbook, the total import of chemicals and related products in China has increased from approximately USD49 billion to approximately USD119 billion between 2003 and 2008, representing a CAGR of 19.4%. The total export of chemicals and related products in China has increased from approximately USD20 billion to approximately USD79 billion between 2003 and 2008, representing a CAGR of 31.6%

Import and Export of Chemicals and Related Products in China

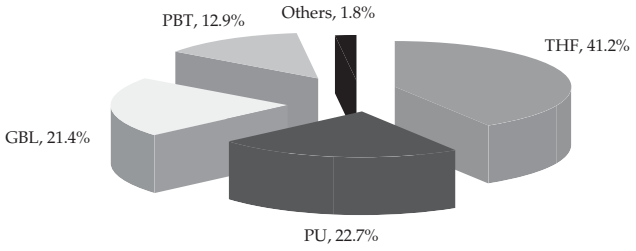


Source: China Statistical Yearbook 2009

CHINA BDO MARKET OVERVIEW

During the past few years, BDO has been mainly used for the production of THF, PU, GBL and PBT in China. The diagram below illustrates the composition of BDO demand in China in 2009.

Composition of BDO Demand in China in 2009

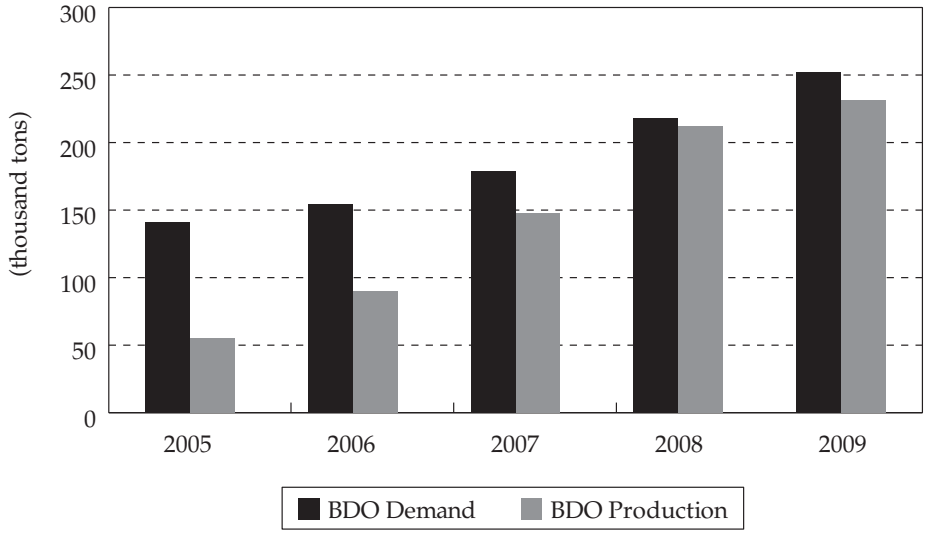


Source: Huajing Report

China's BDO manufacturing industry has experienced a rapid development in the past few years. Prior to such rapid development, most of the domestic BDO demand was fulfilled by the small-scale domestic production plants or imports. With the establishment of more well-developed domestic BDO manufacturers from 2001, domestic BDO production has increased significantly thereafter.

According to the Huajing Report prepared by Beijing Huajing, the demand for and production of BDO in China in 2005 were approximately 141,000 tons and 56,000 tons respectively. In 2009, the demand for and production of BDO in China were approximately 252,000 tons and 231,000 tons, representing a CAGR of 15.6% and 42.5% respectively.

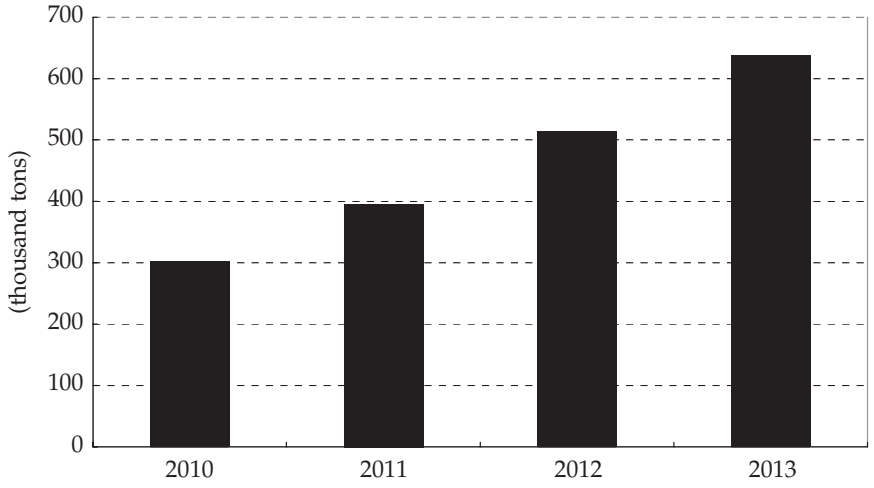
BDO Demand and Production in China



Source: Huajing Report

Despite the significant growth in BDO production in the past few years, domestically produced BDO still cannot fully satisfy the demand in China. According to the Huajing Report prepared by Beijing Huajing, it is expected that the demand for BDO in China will further increase from approximately 300,800 tons in 2010 to approximately 636,000 tons in 2013, representing a CAGR of 28.3%.

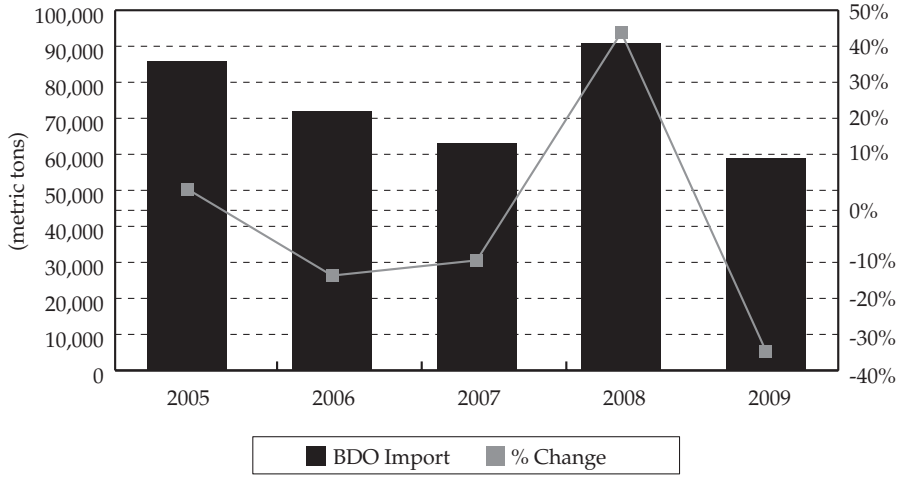
Forecasted BDO Demand in China



Source: Huajing Report

With the substantial increase in domestic production of BDO, BDO imports gradually fell in the past few years from approximately 82,000 tons in 2005 to approximately 59,000 tons in 2009. Among the imported BDO in 2009, approximately 56.3% came from Taiwan, 25.3% from Saudi Arabia, 7.3% from Malaysia, 5.3% from Holland, 3.4% from Japan and 2.4% from others.

China Import Volume of BDO Product



Source: Huajing Report

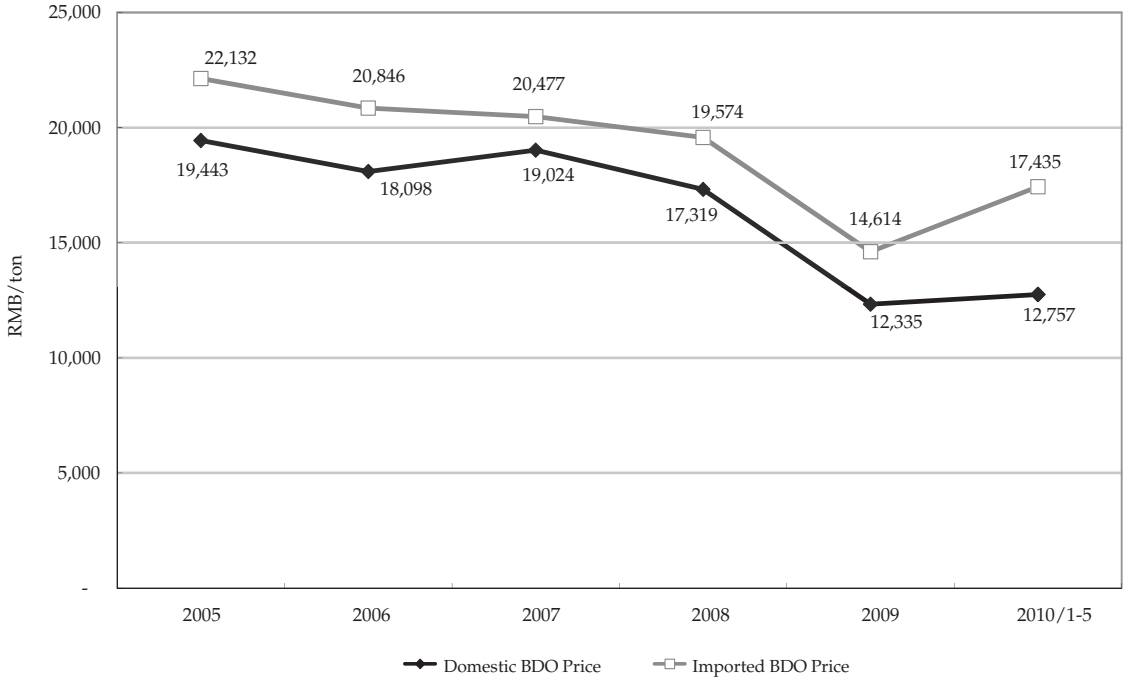
RECENT ANTI-DUMPING CASE

Since 2007, imported BDO price had been decreasing. In August 2008, BDO producers in China alleged that BDO producers in Saudi Arabia and Taiwan were dumping BDO in the China market. In response to complaints from BDO producers in China, on December 24, 2009, MOFCOM considered that BDO producers from Saudi Arabia and Taiwan had been dumping BDO in the China market which significantly damaged the domestic BDO industry. As a result, MOFCOM imposed an anti-dumping duty at a rate of 4.5% to 13.6% on BDO imported from Saudi Arabia and Taiwan into China for a period of five years from December 25, 2009.

PRICING IN CHINA MARKET

Due to the global economic downturn and excessive price pressure resulted from the dumping behavior of foreign BDO manufacturers, the domestic price of BDO in China had decreased significantly from 2007 to 2008, from the highest at RMB23,000 per ton to the lowest at RMB9,200 per ton. In April 2009, the domestic price of BDO in China started to rebound as a result of the expected affirmative anti-dumping investigation results and global economic recovery. In December 2009, most of the domestic BDO manufacturers priced their BDO products at or over RMB13,500 per ton, representing an increase of 46.7% from its trough.

Historical BDO Price in China



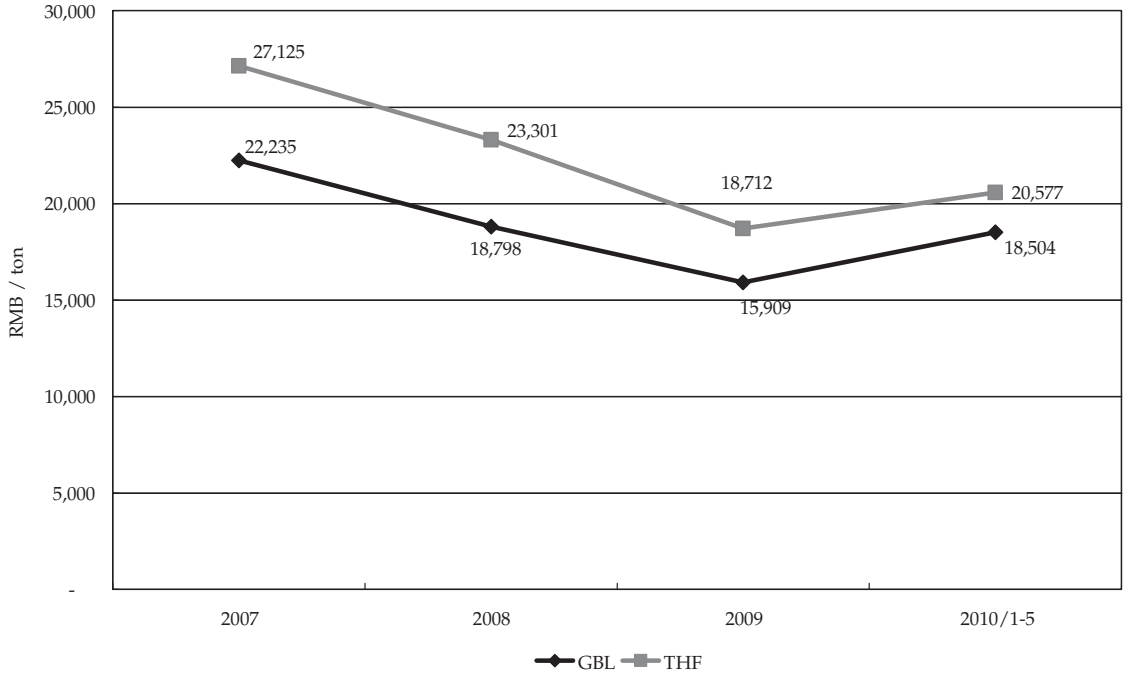
Source: Huajing Report

Note:

The above historical BDO prices in China include value added tax.

Being two of the major downstream products of BDO and the Group's primary products, the prices of GBL and THF had experienced similar pattern as BDO since 2007. The prices of GBL and THF had dropped from their highest of RMB23,106 and RMB28,342 per ton in 2007, to their lowest of RMB14,623 and RMB16,113 per ton in 2009. The prices of GBL and THF started to rebound in 2010 and by the month of October 2010, the prices of GBL and THF reached RMB23,004 and RMB24,927 per ton, representing an increase of approximately 57.3% and 54.7% respectively compared to their respective 2009 average price.

Historical GBL and THF Prices in China



Source: Huajing Report

Note:

The above GBL and THF prices in China include value added tax.

BDO MANUFACTURERS IN CHINA

As far as we are aware, there are currently nine major BDO manufacturers in China with a total designed BDO production capacity of 371,000 tons in 2009. A summary of them is as follows:

Company	Designed BDO Production Capacity in 2009 (tons)	Technology Employed	Market Share in 2009 (sales volume of BDO in the PRC market) *(note 2)*
Shanxi Sanwei Group Co., Ltd.* (山西三維集團股份有限公司)	75,000	REPPE Process	34.2%
Xinjiang MarkorChem Co., Ltd.* (新疆美克化工有限責任公司)	60,000	REPPE Process	15.2%
Nanjing Bluestar New Chemical Materials Co., Ltd.* (南京藍星化工新材料有限公司)	55,000	DAVY Process	9.5%
Dairen Chemical Corp.* (大連化學工業股份有限公司)	36,000	Propylene Oxide Process	N/A
Dongying Shengli A&C Chemical Co., Ltd.* (東營勝利中亞化工有限公司), a subsidiary of our Group	***35,000***	***DAVY Process***	***16.0%***
Fujian Meizhou Lvjian Industry Co., Ltd.* (福建湄洲氯堿工業有限公司)	30,000 *(note 1)*	REPPE Process	N/A
Shanxi Bidi Ouhua Chemical Co., Ltd.* (陝西比迪歐化工有限公司)	30,000 *(note 1)*	REPPE Process	3.5%
Sichuan Tianhua Co., Ltd.* (四川天華股份有限公司)	25,000	REPPE Process	4.8%
Yunnan Yunwei Group Co., Ltd.* (雲南雲維集團有限公司)	25,000 *(note 1)*	REPPE Process	N/A

Source: Huajing Report

Notes:

1 Facilities were in construction or commenced trial production during the year of 2009.

2 Only the market share of the six largest BDO manufacturers in China in terms of sales volume is available in the Huajing Report.

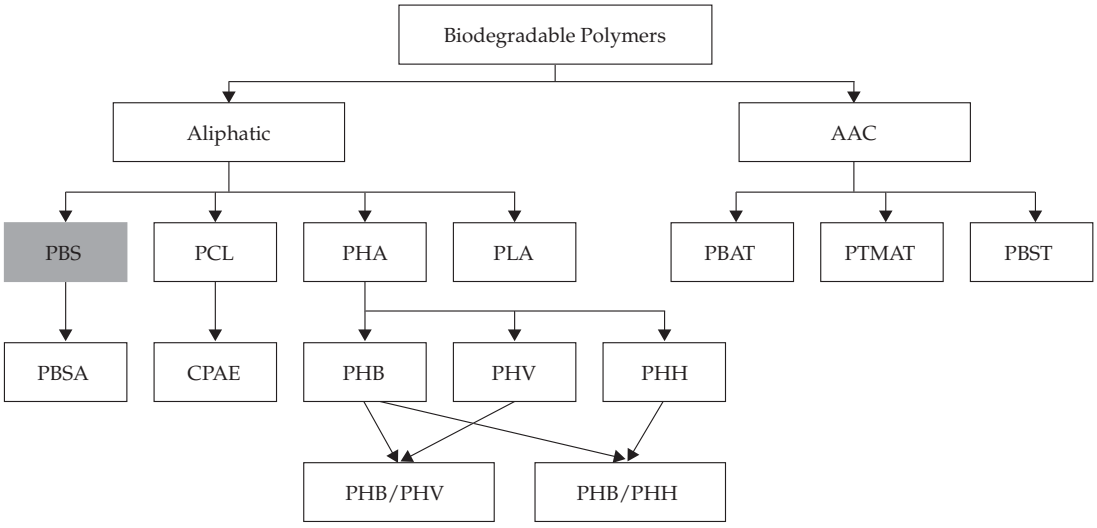
In terms of sales volume of BDO in the PRC market in 2009, according to the Huajing Report prepared by Beijing Huajing, we ranked second in the PRC with a market share of approximately 16.0%.

INTRODUCTION OF DEGRADABLE POLYMERS

Degradable polymers are polymers capable of degrading in natural or compost environments in accordance with international standards. Most degradable polymers are derived from biological raw materials, such as polylactic acid (PLA) and polyhydroxyalkanoates (PHAs). Other degradable polymers such as polybutylene succinate (PBS) are petroleum-based. In addition to these products, there are also a small number of experimental, lab- or pilot-stage degradable polymers that are not yet commercialized.

Degradable polymers are currently experiencing strong market growth. The primary driver of adoption of degradable polymers is their favorable environmental properties, which are boosting resin consumption as firms respond to increasing environmental awareness among consumers and as governments enact regulations benefiting environmentally-friendly products. The value consumers place on more environmentally-benign products enables degradable polymers to compete against conventional polymers despite the former's generally higher costs and poorer performance characteristics. For some products, improved resin properties, particularly with respect to heat tolerance and durability, are broadening the range of possible degradable polymer applications and supporting increased resin consumption. According to Freedonia, global consumption of degradable polymers is expected to increase more than 10% annually from 2009 to 2014, significantly exceeding that of the overall plastic market.

The common types of products categorized under biodegradable polymers include PLA, polycaprolactone (PCL), PHA, PBS and aliphatic-aromatic copolymers (AAC). The following chart illustrates the classification of biodegradable polymers:



Notes:
PBSA – polybutylene succinate/adipate
CPAE – copolyamide-esters
PHB – polyhydroxybutyrate
PTMAT – polytetramethylene adipate/terephthalate
PHV – polyhydroxyvalerate
PHH – polyhydroxyhexanoate
PBAT – polybutylene adipate/terephthalate
PBST – polybutylene succinate/terephthalate

The table below sets out the major characteristics of common types of biodegradable polymers:

Polymers	**Description**
PBS	PBS is a fully biodegradable synthetic aliphatic polyester having a melting point of about 114°C and is in solid form under room temperature. PBS is a relatively new product among the biodegradable polymers in the global market which can be applied to a range of applications such as film, lamination, extrusion, monofilament, fiber, injection molding, foamed sheet and blow molding. PBS is generally blended with other compounds, such as thermoplastic starch and adipate copolymers (to form PBSA) enabling a more economical use.
PCL	PCL is a fully biodegradable synthetic aliphatic polymer with a low melting-point of about 62°C and is suitable for use as food-contact foam trays, loose fill and film bags.

PHA	PHA is a fully biodegradable aliphatic polyester with a melting point ranging from 40°C to 180°C. PHA has attractive qualities for thermo-processing applications and can be applied to blow and injection-moulded bottles and plastics films. However, PHA's fragile characteristic and narrow range of processing temperature bring a lot of difficulties in production and eventually limit its applications.
PLA	PLA is a fully biodegradable aliphatic polyester with a melting point of about 175°C and can be applied to major end products including extruded sheet for thermoformed products, biaxially oriented film, blow moulded bottles, injection-moulded products and fibres for apparel and nonwovens. However, PLA is a hydrolytically unstable material that even the presence of a small amount of moisture can degrade them in storage, during processing and device fabrication. It is also sensitive to high temperature because its molecular weight decreases at high temperature, which will be unstable during storage and sterilisation.
AAC	AAC is an aromatic polyester which is biodegradable. AAC meets all the functional requirements for cling film such as transparency, flexibility and anti-fogging performance and can be used for commercial food wrap for fruit and vegetables.

DEGRADABILITY STANDARDS AND CERTIFICATION

Degradable polymers are often classified according to their mechanisms of degradation. Historically, sales of degradable polymers have been restrained by a lack of consistent standards defining degradability. Significant strides have been achieved in the establishment of degradability standards and regulations in a number of countries. Standards have generally been established for biodegradable/compostable polymers, while efforts to develop standards for photodegradable and other types of degradable polymers (eg, hydrodegradable) are progressing worldwide.

There are several different methods by which polymers can be degraded. Biodegradation is the breakdown of organic materials by naturally existing microorganisms, such as bacteria, fungi or algae, over a period of time. This biodegradation can occur in a wide range of environment, including soil, home compost, industrial compost and even fresh and salt water. Organic materials subjected to aerobic conditions are fully biodegradable if they can be totally converted by microorganisms to carbon dioxide, water and humus. Full biodegradation under anaerobic conditions results in carbon dioxide, methane and humus. A compostable polymer is a polymer that

undergoes degradation by biological processes composting to carbon dioxide, water, inorganic compounds and biomass at a rate consistent with other known, compostable materials and leaves no visually distinguishable or toxic residues. Photodegradable polymer is degraded by the action of natural sunlight. Oxidative degradable polymer is degraded by oxidation. Hydrolytic degradable polymer is degraded by hydrolysis.

In the U.S., degradable polymers are covered under three main ASTM International standards which are:

- ASTM D6400, measuring the ability of the product or material to be converted to carbon dioxide by the organisms found in a compost pile at an acceptable rate;

- ASTM D6868, measuring the ability of the materials to fragment, so that products do not clog the screening equipment; and

- ASTM D7081, measuring the ability of the resulting compost to support plant growth.

In the E.U., EN 13432 is the harmonized standard used to certify the degradability of materials, including polymers. Under EN 13432, polymers must be degraded of at least 90% in six months under controlled composting conditions. Polymers must also be sufficiently disintegrated, without leaving large pieces of materials in the compost mixture. EN 13432 is very similar to ASTM D6400, and nearly all polymers that pass one standard will also pass the other.

In China, most firms using degradable polymer resins are export-oriented; as such, domestic degradable polymer manufacturers must generally conform to globally-accepted standards, such as ASTM D6400 and ASTM D6868. Depending on the application, firms will also need to meet Chinese standards such as QB/T 2670, 2671 and 2672, or GB/T 19277, 20197 and 21660, which are based upon ISO standards.

LEGISLATION AND REGULATION

The degradable polymers industry is influenced by government policies and legislation, primarily at the national level but also often at the municipal level. The extent of legislation concerning degradable polymers and its effect on the industry vary considerably from country to country, although such laws tend to be fairly limited in nature and related to tax breaks or restrictions on competing products.

In the U.S., federal and state governments have generally taken a laissez-faire approach to waste management and environmental issues, leaving corporations, retailers and other organizations to provide the stimulus for increased use of degradable polymers. This is in stark contrast to many West European countries, which have high waste disposal taxes and a variety of laws governing materials use and disposal. For example, Belgium, Ireland and Italy levy a tax on conventional plastic bags, which promotes the use of degradable and reusable bags, while Germany, the Netherlands and Switzerland require grocery store customers to pay for conventional plastic bags. Spain is also taking steps to

reduce plastic bag use, while the UK has numerous municipal bans and is considering national legislation. In North America, no national bans are in effect, although a number of major cities – including San Francisco, Oakland, Washington DC, Toronto and Mexico City – have enacted taxes or other restrictions on plastic bag use.

While plastic bag restrictions are common in developed countries, similar legislation can be found in heavily urbanized parts of the developing world as well, where solid waste pollution is often a major problem. China established a ban on thin plastic bags and a tax on other bags in 2008, while some of the largest cities in India and Bangladesh also maintain plastic bag bans. Elsewhere in the Asia/Pacific region, Taiwan has enacted a tax on plastic bags, and Australia is considering a similar measure.

Besides, the Chinese government is also providing financial support for the research, development and industrialization of biotechnology, including bio-based degradable plastics. The government also allows identified high-tech bio-enterprises to pay a reduced tax on their income (15% as opposed to 30%) to promote the development of such firms. China is also actively promoting the use of degradable films, particularly in farming applications.

CHARACTERISTICS OF PBS AND PBS COPOLYMER PRODUCT

PBS

Generally speaking, PBS has good overall performance among the biodegradable polymers in terms of mechanical properties, processability and heat resistance.

- Mechanical properties – Mechanical properties of PBS lie between polyethylene (PE) and polypropylene (PP), thus it can satisfy the general requirements for use in plastic. PBS is basically stable in the atmosphere but biodegradable in soil, seawater and compost. It can maintain a stable performance in a relatively long storage and usage period while being degraded quickly after use.

- Processability – PBS has the best processability among the general degradable polymers and it can be processed by injection molding, extrusion molding or blow molding using conventional polyolefin processing equipment, lowering barrier to switch to PBS from other polymers.

- Heat resistance – PBS's thermal deformation temperature is approximately 100°C which can be increased to over 100°C after property alteration. Therefore, it has a good heat resistance performance compared to other fully biodegradable polymers and is able to meet the heat resistance requirement of daily articles, such as cold/hot drink packaging and food containers.

- Comprehensiveness – PBS has great flexibility and is applicable to a broad usage including daily disposable supplies.

Due to its superior characteristics in terms of the mechanical properties, processability and heat resistance over the other types of biodegradable polymers, the use of PBS has emerged as a biodegradable material potentially for a wide range of applications, such as styrofoam packaging materials, food containers, packaging films, garbage bags, disposable medical devices, hygiene products, textiles and covering materials for landscaping purposes. It can also be blended with other compounds, such as starch and adipate copolymers, enabling a more economical use.

PBS Copolymers

PBS copolymers are fully biodegradable synthetic aliphatic/aromatic copolyesters having a melting point between 100°C and 120°C and are in solid form under room temperature. Relative to PBS, PBS copolymers have the following characteristics:

- Enhanced tensile strength and tear strength so that the packaging bag made by PBS copolymer can carry heavier weight and be re-used;

- Higher transparency and suitable for use in the packaging of food and cigarette and as advertising materials;

- Improving the compatibility of degradable polymers with other materials, such as starch, PLA and PHB so that the toughness and processability of the mixed degradable materials will be enhanced.

Therefore, PBS copolymers are believed to be the most suitable degradable material to be used in packaging, films and fibre materials in terms of its mechanical properties and processability.

PBS AND PBS COPOLYMER APPLICATIONS

Due to the comparatively superior characteristics in mechanical properties, processability and heat resistance, PBS and PBS copolymers can be used in a wide range of applications in various industries. The following table illustrates some of the major applications of PBS and PBS copolymers and their corresponding industries:

Industry	Applications
Packaging	Garbage bag, plastic bag, label bottle (not for water nor alcohol), foamed cushion, barrier sheet, pharmaceutical and cosmetics products packaging
Agricultural	Composite film, seed breeder, mulch films and pesticide carrier
Greenery	Lawn-planting net and vegetation cover
Fishery	Bait bag, cushioning product, net and fish line
Consumer Products	Handbag, pen, card, diaper, magnetic card and hygiene product
Food	Food and beverage packaging, container and disposable tableware
Medical	Medical container and syringe

In addition to the above application, PBS copolymers can also be used as additive to improve the compatibility of degradable polymers (such as PLA and PHB) with other materials, (such as starch), so that the toughness and processability of the mixed degradable materials will be enhanced. Since PBS copolymers can improve the compatibility of degradable polymers and other materials, the greater the demand for these polymers, the greater the demand will be for PBS copolymers.

PRODUCTION PROCESS OF PBS AND PBS COPOLYMERS

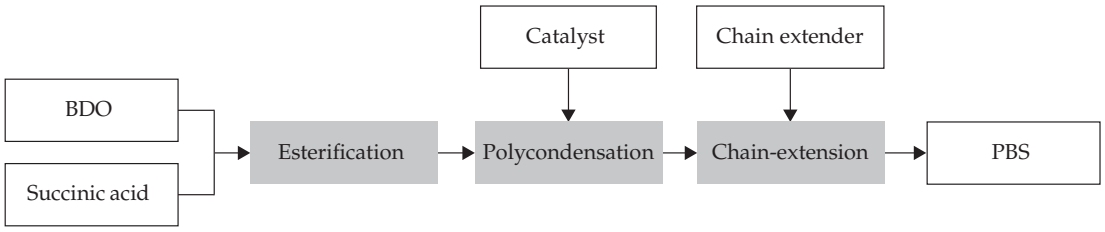
PBS

To the best of our Directors' knowledge, PBS is generally produced from BDO and succinic acid (丁二酸) in the presence of catalyst through one of the two production methods: the chain extension process (擴鏈法) or the direct polycondensation process (一步法). Production of PBS under each of the chain extension process and the direct polycondensation process may involve either the intermittent reaction process (間歇法) or the continuous reaction process (連續法) depending on the production scale. The intermittent reaction process is generally applicable to production of PBS at a small scale from approximately 3,000 tpa to 5,000 tpa while the continuous reaction process is generally applicable to production of PBS at a larger scale.

Chain extension process

The chain extension process is a formerly developed production methodology. It mainly involves three steps: (1) esterification (酯化), (2) polycondensation (縮聚) and (3) chain-extending process (擴鏈). The initial step of esterification involves the manufacture of butylene succinate through esterification of succinic acid and BDO at 150–200°C under normal pressures. The butylenes succinate then undergoes the polycondensation process in the presence of catalyst at 200–280°C to form low molecular weight PBS. Finally, the low molecular weight PBS is reacted with a chain extender, such as isocyanate (二異氰酸酯) under the chain-extending process to produce PBS. However, isocyanate is hazardous to human health. Therefore PBS produced by chain extension process is not suitable for use in applications where hygienic requirement is needed.

The following chart sets out the production process of chain extension process:

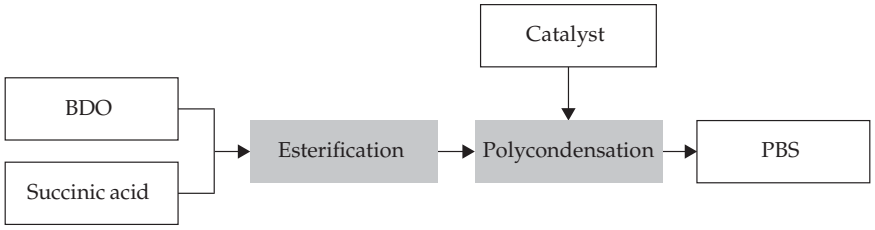


IPCCAS Direct Polycondensation Process

The IPCCAS Direct Polycondensation Process, on the other hand, is modified from the chain extension process. IPCCAS and HKH National Engineering Research Center of Plastics Co., Ltd (海爾科化工程塑料國家工程研究中心股份有限公司) jointly developed the IPCCAS Direct Polycondensation Process pursuant to which the parties have separately applied and obtained in relevant patents on the technologies.

Under the IPCCAS Direct Polycondensation Process, PBS is produced directly from the polycondensation of BDO with succinic acid and maleic acid using a high-efficiency catalyst for polymerization, which is also developed by IPCCAS.

The following chart sets out the production process of the IPCCAS Direct Polycondensation Process for PBS product:



PBS produced by the IPCCAS Direct Polycondensation Process has a number of principal advantages over those produced by the chain extension process, which include:

- unlike the chain extension process which requires the use of chain extenders such as isocyanate (which is hazardous to human health), PBS produced by the IPCCAS Direct Polycondensation Process is free from isocyanate, and therefore has an absolute advantage in producing PBS that is suitable for use in the food and beverage packaging, cosmetics and medical related applications where the hygiene requirement is essential;

- the IPCCAS Direct Polycondensation Process has a shorter overall reaction process and thus a lower investment and production cost;

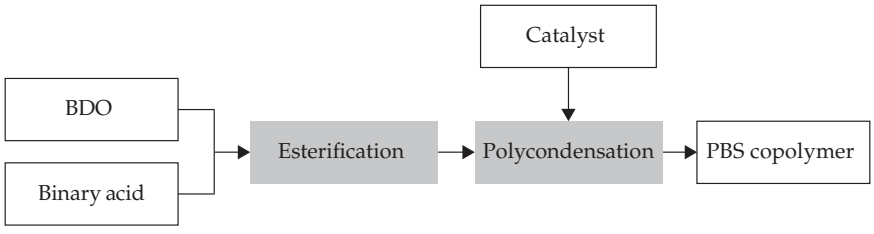
- the IPCCAS Direct Polycondensation Process is environmentally-friendly and does not lead to emission of pollutants during production;

- IPCCAS has successfully made enhancements to the IPCCAS Direct Polycondensation Process to achieve higher stability and avoided acidic erosion to production facilities during the production process.

PBS Copolymers

The production process of PBS copolymers intended to be adopted by us is similar to the IPCCAS Direct Polycondensation Process while the raw material inputs are BDO and binary acid instead. PBS copolymers are produced directly from the polycondensation of BDO with different kind of binary acid using a high-efficiency catalyst for polymerization.

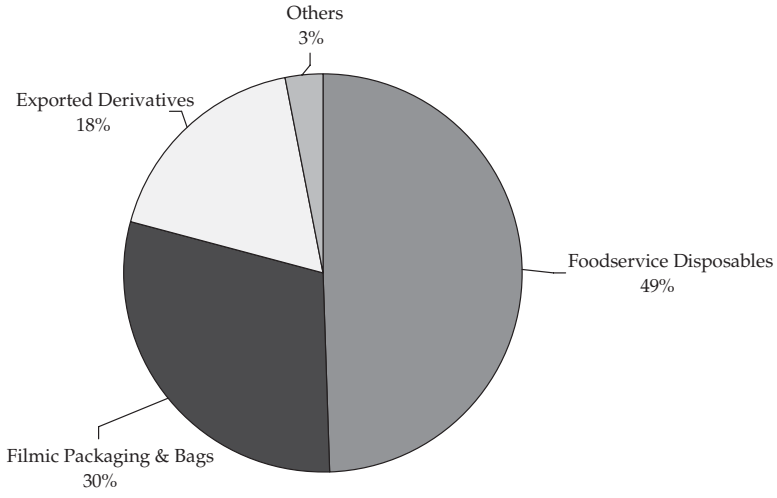
The following chart sets out the production process of PBS copolymers to be adopted by us:



CHINA PBS AND PBS COPOLYMER MARKET

Until recently, China had been entirely reliant on foreign supplies of PBS and PBS copolymers, primarily from suppliers in Japan and South Korea. According to Freedonia, total demand for PBS and PBS copolymers reached approximately 5,050 tons in China in 2009. Nearly 50% of demand for PBS and PBS copolymers in 2009 was attributable to the use in domestic production of foodservice disposables, while 30% of the resin was consumed in the production of filmic packaging and bags. Approximately 18% of demand for PBS and PBS copolymers is used for resin blends that are ultimately bound for export markets. Other applications, such as flower pots, combs and toothbrushes, accounted for the remaining of China's consumption of PBS and PBS copolymers.

China PBS and PBS Copolymers Demand by End-use in 2009



Source: Freedonia

Due to the high cost relative to competing products, nearly all of the PBS and PBS copolymers consumed in China are blended with other resins, most commonly starch and PLA-based products, to create cost-competitive degradable plastic resins. These blends are subsequently either exported or used domestically in the production of finished goods. These finished goods include degradable foodservice disposables, packaging films and plastic bags, almost all of which are destined for export markets. The ultimate driver of the consumption of PBS and PBS copolymers in China is demand for degradable plastic products in developed regions, particularly the E.U. and the U.S..

Following the expansion of its domestic PBS manufacturing capacity, China will become much less dependent on imported PBS. According to Freedonia, China is expected to become a net exporter of PBS by 2013. Despite rising exports, the vast majority of the PBS produced in China will continue to be used domestically. China's PBS imports are expected to decline significantly as domestic production increases, as less price-competitive foreign suppliers are crowded out by cheaper Chinese suppliers. According to Freedonia, the demand for PBS in China is expected to increase at a CAGR of 33.5% between 2009 and 2014.

PBS copolymers are used as additives or modifiers in the manufacture of starch- or PLA-based films, for the purpose of producing fully degradable filmic packaging and bags. To the best knowledge of our Directors, currently, no PBS copolymers are produced in China and they are imported for use as additives or modifiers in the production of degradable plastic films. Our Group is expected to begin selling PBS copolymers domestically in 2011. Demand for PBS copolymers is expected to rise very rapidly in the next few years, with gains supported by increased resin availability and a reduction in resin prices as large-scale domestic production begins. Demand for PBS copolymers will also be driven by rising demand for fully degradable packaging materials in the US, the EU and other export markets, particularly in countries requiring plastic packaging films and bags to meet EN 13432 and ASTM D6400 certifications. According to Freedonia, the demand for PBS copolymers in China is expected to increase at a CAGR of 54.0% between 2009 and 2014.

According to National Research Center of Engineering Plastic of IPCCAS, the characteristics of different industries regarding the application of degradable polymers are set out below:

Industry	Technical Barrier	Policy Environment	Industry Concentration	Necessity for Applying Degradable Materials	Proportion of Cost Increment Applying the Degradable Materials
Packaging	Low	Very favourable	Low	High	Higher
Agricultural and Forestry	High	Normal	Higher	Normal	Higher
Daily Necessity	Low	Normal	Low	Normal	Higher
Medical	High	Favourable	Higher	High	Normal

Source: National Research Center of Engineering Plastic, IPCCAS

Filmic Packaging and Bags Market in China

According to Freedonia, consumption of polymers for use in packaging films and bags produced in China had a CAGR of 8.9% between 2005 and 2009 to approximately 6,900,000 tons, among which less than 0.1% are demand for degradable polymers. Between 2009 and 2014, it is expected that the consumption of polymers for use in packaging films and bags produced in China will increase 6.4% annually to approximately 9,400,000 tons. Although degradable polymers accounted only for a small portion currently, its share is expected to increase rapidly in the future. Demand for degradable polymers in producing packaging films and bag is projected to rise 59.5% annually between 2009 and 2014. The table below sets out the characteristics of different application in packaging industry.

Sector	Application	Industry Concentration	Necessity for Applying Degradable Materials	Consumer Concern over Degradability of Packaging
Food and Beverage	Packaging and bottle	High	Very High	Normal
Toy and Daily Necessity	Products and Packaging	Low	High	Normal
Agricultural and Forestry	Plastic Sheeting and Pesticide Container	High	Very High	Concern
Plastic Bag and Film	Garbage Bag and Packaging Bag	Low	Very High	Concern

Source: National Research Center of Engineering Plastic, IPCCAS

Leading applications for PBS and PBS copolymers in this sector include shopping bags and food wrapping films. For PBS copolymers, gains will be driven primarily by the resins being blended into the increasing volumes of starch- and PLA-based film packaging products being manufactured in China. In these applications, PBS copolymers are often used as additives and modifiers to improve finished product performance. In food wrapping films, PBS benefits from its clarity and thermal resistance which can improve product aesthetics and enable the packaging of hot food and beverage products. Other PBS film packaging applications include clear cigarette packaging.

Along with other degradable polymers, PBS and PBS copolymers used in packaging films and bags are benefiting from rising environmental concerns, company efforts to enhance their reputations as being environmentally friendly and foreign demand, particularly from the U.S. and E.U.. The degradability of these products, and the positive reaction consumers have to such products, will be primary drivers of PBS and PBS copolymers demand in packaging films and bags going forward. These concerns are driving the consumption of PBS and PBS copolymers by China's packaging films manufacturers, with demand for these resins expected to rise robustly at 65.9% CAGR between 2009 and 2014 according to Freedonia.

Medical disposables market in China

According to Freedonia, consumption of plastic resin used in the production of medical disposables in China had risen 5.8% annually to approximately 3,890,000 tons between 2005 and 2009. It is expected that the same will increase 4.1% annually between 2009 and 2014 to approximately 4,990,000 tons. Among the plastic resin consumed, there was no degradable plastic consumed in 2009. Growth in demand for the degradable resins is expected to strongly outpace that of conventional resins going forward, as degradable resins benefit from their favourable environmental profile and efforts to promote the greater use of sustainable raw materials such as maize, which is a raw material in some degradable resins, most notably PLA. Among the disposable medical products expected to begin using degradable plastic resins going forward are syringes, medical plates, medicine bottles, and surgical masks, gloves, aprons and gowns. Although most of these products are still in the early stages of development, some items are expected to be

marketed in the near future. According to Freedonia, the demand for degradable polymers in medical disposable application is projected to increase at a CAGR of 65% between 2011 and 2014.

Key factors supporting PBS consumption growth in the production of medical disposable include environmental concerns, company efforts to enhance brand images and rising demand for green products from more developed areas such as the U.S. and Western Europe. Chinese government initiatives will also support increased PBS consumption. For example, in 2005, NDRC issued Decree 40 encouraging the development of biodegradable polymers, while in 2006, the same commission set up a fund in support of this goal. Between 2011 and 2014, it is expected that the demand for PBS and PBS copolymers in medical disposable application in China will increase 81.7% annually, according to Freedonia.

Foodservice disposables market in China

Foodservice disposables are a major application for degradable polymers. Because of the relatively low-performance nature of most foodservice applications, degradable polymers have been able to penetrate the market without needing major improvements in resin properties. Cutlery is the leading application for degradable polymers in foodservice disposables, and is expected to continue posting solid demand growth. Opportunities are also expected in other products such as plates, trays, dishes, bowls and cups. According to CAS, China consumes approximately 6 billion fast-food boxes, 5 billion instant noodle bowls, 60 billion pairs of disposable chopsticks annually. These products are widely used in fast-food and other dining outlets, as well as in the home, and are relatively easy to segregate for composting along with food residuals. According to Freedonia, the foodservice disposables accounted for 49% of the total PBS and PBS copolymer demand in China in 2009.

Prices of PBS and PBS copolymers in China

According to Freedonia, the price of PBS in China averaged approximately RMB36,000 per ton in 2009, which represents a significant fall from the 2008 level, with the decline being heavily influenced by the emergence of domestic PBS production. Price of PBS is expected to decline in the next few years as driven by the increasing availability of PBS from domestic producers, which are expected to be able to offer PBS at lower prices than foreign suppliers due to greater economies of scale and reduced operating costs. For China-based resin users, PBS manufacturing in Japan and South Korea is moderately more expensive than PBS produced in China, although this depends partly on product quality, order size and specific trade-related costs.

In 2009, the prices of PBS copolymers averaged approximately RMB55,000 per ton, which were higher than that in Western Europe and the U.S. due to a lack of direct sales in China, import taxes and agent charges. However, prices are expected to decrease going forward due to the greater availability of imported and domestically-manufactured copolymers. Despite the downward pricing pressure from sharply increasing supply, our Directors expect that prices for the PBS copolymers will remain supported by raw material costs.

Market Forecast

According to Freedonia, demand for PBS and PBS copolymers in China is forecasted to experience significant growth, with a CAGR of approximately 56.2% from approximately 5,050 tons to approximately 47,000 tons between 2009 and 2014, and China will become a net exporter of PBS from 2013 onward. According to Freedonia, these demand forecasts are arrived at based on estimates for the production of downstream goods that consume PBS or PBS copolymers, most often in the form of blends with starch- or PLA-based degradable resins. Within these resin blends, PBS and PBS copolymers are generally used at specific levels for different applications, which Freedonia analyzed to determine the possible market demand for the targeted products. When formulating these demand forecasts, Freedonia has taken into account, among other factors, the restraints on increased consumption including higher prices and inferior technical performance relative to conventional plastics in some applications. In particular, the higher prices generally require product manufacturers to have a significant customer base willing to pay price premium for environmentally-friendly materials. The small existing base of PBS and PBS copolymers demand will also be regarded as a restraint on consumption over the next several years, due to the time associated with commercializing new products and adjusting to technical issues across the various stages of finished goods production. PBS and PBS copolymers may also be limited by resin availability, both for these products and for key blending components such as PLA. It is also assumed that existing government legislation and regulations regarding degradable polymers remain in their current state in both China and key export markets.

Despite the strong forecast growth in demand, Freedonia also expects China's PBS production to lag behind its installed PBS capacity in the near future, resulting in significant under-utilization due to the immaturity of many targeted PBS applications both domestically and globally.

That said, taking into consideration, among other things, (i) the supportive view of PRC state agencies on biodegradable cutlery and toiletries and practices (such as levy imposition) to discourage the use of non-biodegradable plastic bags; (ii) the suitability of PBS as a raw material for surgical bandages and sanitary napkins as highlighted by academic publications; (iii) the strong growth in popularity of biodegradable materials in overseas markets and (iv) PBS formulation progress reports and trial test results prepared by IPCCAS under our collaborative arrangements on PBS applications to be adopted by our potential PBS customers; our Group is of the view that if any of the growth barriers identified by Freedonia are to diminish at a faster pace, the PBS and PBS copolymers market may grow at a much faster pace than that currently forecasted.

Further, our Directors are confident that given our Group's solid foundation as a BDO manufacturer using the DAVY Process, a competitive advantage in terms of securing the principal raw material for the production of PBS and PBS copolymers; its collaborative relationship with IPCCAS, the patent holder of the IPCCAS Direct Polycondensation Process to be adopted by us; our ability to tap onto the expertise of the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University through our chief technical officer, Dr. Zhang Aimin, and our collaborative relationship with Sichuan University; and our scheduled expansion in our BDO and PBS production capacity, our Group is well posed to become an early mover in China's PBS and PBS copolymers market.

SOURCES OF INFORMATION

Beijing Huajing

Beijing Huajing is a renowned economic information research institution in China with experts and professors from the Development Research Center of the State Council (國務院發展研究中心), Society of Competitive Intelligence of China (中國競爭情報學會) and the School of Business in Renmin University of China (中國人民大學商學院). As the core member of a long-term research project hosted by Development Research Center of the State Council, the research conducted by Beijing Huajing has been recognized as an authority of the latest industry development in China. In 2008, it have 21 industry research departments, covering areas such as energy, petrochemical, tourism and hotel, real estate, food, apparel, pharmaceutical, mechanical, cultural, building material, metallurgy and circulation industry research, etc. We purchased a report, namely Industry Development Study Report for BDO in 2010 from Beijing Huajing at RMB35,000 regarding market environment as well as the independent forecast of BDO demand in China.

The Huajing Report represents data, research opinion or viewpoints developed independently by its researchers. The Huajing Report was complied based on various data collected by Beijing Huajing through different means, including but not limited to (i) publicly available information from government and industry association; and (ii) onsite visits or telephone interviews with market participants. Forecasts in the Huajing Report are based on data from 2005 to 2009 using index forecast model, logarithm forecast model and linear forecast model. Beijing Huajing also made certain assumptions, including but not limited to the fact that there will not be any significant change in the industry, the upstream industry; the downstream industry and end users.

Freedonia

Freedonia Custom Research, Inc is a wholly owned subsidiary of The Freedonia Group, a leading business research publisher. Freedonia Custom Research, Inc conducts bespoke industry analysis and provides industry outlook and assessment and includes product and market forecasts, industry trends, threats and opportunities, competitive strategies, market share determinations and company profiles.

We commissioned Freedonia Custom Research, Inc to conduct an independent sizing and forecasting of demand in China for PBS and a group of selected PBS copolymers, as well as further analysis of and findings on the broader market environment for degradable polymers. The fee payable to Freedonia Custom Research, Inc for the preparation of the report is US$56,000. The payment of such amount was not contingent upon our successful listing or on the results of the report.

The report prepared by Freedonia ("**Freedonia Report**") represents data, research opinion or viewpoints developed independently on its behalf and does not constitute a specific guide to action. In preparing the report, Freedonia used various sources, including company financial filings, government statistical reports, press releases; industry magazines, and interviews with employees of manufacturers of related products (including client), manufacturers of competitive products, distributors of related products, and government and trade associations. Growth rates in the Freedonia Report are based on many variables, such as currency exchange rates, trade barriers, raw material costs and pricing of competitive products, and such variables are subject to wide fluctuations over time. The Freedonia Report is accurate as at its original delivery date (and not as at the date of this Prospectus), and the opinions and forecasts expressed in the Freedonia Report are subject to change without notice.

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our Shareholders' right to receive dividends and other distributions from us.

ENVIRONMENTAL REGULATIONS

We use, generate and discharge toxic, volatile or otherwise hazardous chemicals and wastes in our research and development and manufacturing activities. We are subject to a variety of governmental regulations related to the storage, use and disposal of hazardous materials. The major environmental regulations applicable to us include the "Environmental Protection Law of the People's Republic of China" (中華人民共和國環境保護法), the "Water Pollution Prevention Law of the People's Republic of China" (中華人民共和國水污染防治法), the "Atmospheric Pollution Prevention Law of the People's Republic of China" (中華人民共和國大氣污染防治法), the "Environmental Noise Pollution Prevention Law of the People's Republic of China" (中華人民共和國環境噪音污染防治法) the "Environmental Impact Assessment Law of the People's Republic of China" (中華人民共和國環境影響評價法), the "Regulations Governing Environmental Protection in Construction Projects" (建設項目環境保護管理條例) and the "Regulations Governing Completion Acceptance of Environmental Protection Facilities in Construction Projects" (建設項目環境保護設施竣工驗收管理規定).

According to the "Environmental Protection Law of the People's Republic of China" and the "Environmental Impact Assessment Law of the People's Republic of China" promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) respectively on December 26, 1989 and October 28, 2002, the "Regulations Governing Environmental Protection in Construction Projects" promulgated by the State Council of the People's Republic of China on November 29, 1998, and the "Regulations Governing Completion Acceptance of Environmental Protection in Construction Projects" promulgated by the Administration of Environmental Protection (國家環保總局) (the successor to which is the Ministry of Environmental Protection) on December 31, 1994, we shall submit the Report on Environmental Impact Assessment (環境影響評價報告) to the competent environmental protection authorities for approval and we shall also submit the Application Letter for Acceptance of Environmental Protection Facilities in Construction Projects (建設項目環境保護設施竣工驗收申請報告) to such authorities for approval before commencing the actual production.

According to the "Environmental Protection Law of the People's Republic of China", the "Water Pollution Prevention Law of the People's Republic of China" promulgated on May 11, 1984 and amended on May 15, 1996 and February 28, 2008 by the Standing Committee of the National People's Congress, and the "Atmospheric Pollution Prevention Law of the People's Republic of China" promulgated on September 5, 1987 and amended on August 29, 1995 and April 29, 2000 respectively by the Standing Committee of the National People's Congress, we shall obtain the Pollution Discharge Permit (排污許可證) if we directly discharge the waste water or the waste gas into the waters or the air.

REQUIREMENTS OF SAFE PRODUCTION

As we use and manufacture dangerous chemicals in our production, we must meet PRC government standards and the relevant provisions of the State regulations. The major regulations of safe production applicable to us include the "Implementation Measures for the Safety Permit of Dangerous Chemicals Construction Projects" (危險化學品建設項目安全許可實施辦法), the "Regulations on the Safe Management of Dangerous Chemicals" (危險化學品安全管理條例), the "Regulations on the Safety Production Permit" (安全生產許可證條例) and the "Implementation Measures for the Safety Production Permit for the Manufacturers of Dangerous Chemicals" (危險化學品生產企業安全生產許可證實施辦法).

According to the "Implementation Measures for the Safety Permit of Dangerous Chemicals Construction Projects" promulgated by the State Administration of Work Safety (國家安全生產監督管理總局) on September 2, 2006, we shall conduct safety evaluation before the establishment (approval, rectification or filing) of the construction project of the dangerous chemicals.

According to the "Regulations on Labor Protection for Toxic Substances Used at Working Place" (使用有毒物品作業場所勞動保護條例) promulgated by the State Council of the People's Republic of China on May 12, 2002, we must take effective protective measures to prevent occupational poisoning incidents, take out industrial injury insurance and implement safety measures to protect the safety and health of our employees.

According to the "Regulations on the Safe Management of Dangerous Chemicals" and the "Regulations on the Safety Production Permit" promulgated by the State Council of the People's Republic of China respectively on January 26, 2002 and on January 13, 2004 and the "Implementation Measures for the Safety Production Permit for the Manufacturers of Dangerous Chemicals" promulgated jointly by the State Administration of Work Safety and the State Administration of Coal Mine Safety (國家煤礦安全監察局) on May 17, 2004, we shall obtain the Production Permit for the dangerous chemicals (say, THF, which falls into the Catalogue of Dangerous Chemicals (GB 12268-2005) (《危險貨物品名表》(GB 12268-2005)) we produce, and we must establish and improve the rules and systems of safety control for the use of dangerous chemicals, so as to guarantee the safe use and administration of such dangerous chemicals.

Depending on the categories and characteristics of the dangerous chemicals we use, we must establish corresponding safety facilities and equipment for the monitoring and ventilation of dangerous chemicals. Systems must also be established to protect against solarization, static, temperature changes, fire, lightening and pressure changes including systems to fireproof, disinfect, neutralize, moisture-proof, and leak-proof storage areas. Storage areas should be segregated and maintenance of such sites is to be undertaken in accordance with PRC government standards to guarantee compliance with safe operation requirements. We must also establish communication or alarm devices at production and storage areas that use dangerous chemicals and must further guarantee that the devices are in proper working order under normal circumstances.

PRODUCTION FACILITIES CONSTRUCTION

Pursuant to the "Interim Measures for the Administration of Examining and Approving Foreign Investment Projects" (外商投資項目核准暫行管理辦法) which became effective on October 9, 2004, foreign invested projects must be approved by the NDRC or its local agency. Pursuant to the "Environmental Impact Assessment Law of the People's Republic of China" (中華人民共和國環境影響評價法) which became effective on September 1, 2003, entities proposed to conduct construction projects are required to submit environmental impact appraisal documents of construction projects to the competent administrative department in charge of environmental protection for examination and approval. Pursuant to the "Implementation Measures for Safety Permit of Dangerous Chemical Construction Projects" (危險化學品建設項目安全許可實施辦法) which became effective on October 1, 2006, entities undertaking construction projects are required, on the commencement of the construction projects, to apply for a safety review to the department in charge of safety licensing for construction projects and obtain safety licences for project construction. As confirmed by our PRC legal advisers, our Group has obtained all the regulatory approvals and licenses as required under the above laws and regulations for the construction of the new BDO, PBS and PBS copolymer facilities. Our PRC legal advisers have advised us that, as at the Latest Practicable Date, our Group has been in compliance with such laws, regulations and rules in all material respects.

TAXATION

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. Prior to the PRC EIT Law and its implementation rules that became effective on January 1, 2008, in accordance with the "PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises" (外商投資企業和外國企業所得税法), or the Income Tax Law, and the related implementing rules, foreign invested enterprises incorporated in the PRC are generally subject to an enterprise income tax rate of 33.0% (30.0% of state income tax plus 3.0% local income tax). The Income Tax Law and the related implementing rules provide certain favorable tax treatments to foreign invested enterprises. Production-oriented foreign-invested enterprises scheduled to operate for a period of ten years or more are entitled to exemption from income tax for two years commencing on the first profit-making year and a 50.0% reduction in income tax for the subsequent three years. In certain special areas such as coastal open economic areas, special economic zones and economic and technology development zones, foreign-invested enterprises are entitled to reduced tax rates, namely: (1) in coastal open economic zones, the tax rate applicable to production-oriented foreign-invested enterprises is 24.0%; (2) in special economic zones, the rate is 15.0%; and (3) certified high and new technology enterprises incorporated and operated in economic and technology development zones determined by the State Council may enjoy a 50.0% deduction of the applicable rate.

On March 16, 2007, the National People's Congress approved the "PRC Enterprise Income Tax Law" (中華人民共和國企業所得税法), or the PRC EIT Law, which became effective on January 1, 2008. The State Council subsequently promulgated the "Implementation Regulations of the PRC Enterprise Income Tax Law" (中華人民共和國企業所得税法實施條例) and the "Notice on the Implementation of the Transitional

Preferential Policies in respect of the Enterprise Income Tax" (關於實施企業所得税過渡優惠政策的通知), respectively, on December 6 and 26, 2007. The PRC EIT Law adopts a uniform tax rate of 25.0% for all enterprises (including foreign-invested enterprises) and revokes the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. The PRC EIT Law also provides for transitional measures for enterprises established prior to the promulgation of the PRC EIT Law and eligible for lower tax rate preferential treatment in accordance with the then prevailing tax laws, up until March 16, 2007, and administrative regulations. These enterprises will gradually become subject to the new, unified tax rate over a five-year period beginning January 1, 2008; enterprises eligible for regular tax reductions or exemptions may continue to enjoy tax preferential treatments after the implementation of the PRC EIT Law and until their preferential treatments expire. The preferential treatment period for enterprises which have not enjoyed any preferential treatment for the reason of not having made any profits, however, shall be deemed as starting from the implementation of the PRC EIT Law.

In addition, under the PRC EIT Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC may be considered a resident enterprise and will normally be subject to the enterprise income tax at the rate of 25.0% on its global income. Under the Implementation Rules for the PRC EIT Law, "de facto management bodies" are defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. If the PRC tax authorities subsequently determine that, notwithstanding our status as a Cayman Islands holding company, we should be classified as a resident enterprise, then our global income will be subject to PRC income tax at a tax rate of 25.0%. Furthermore, under the PRC EIT Law, dividends payable from FIEs to their non-PRC enterprise investors are subject to a withholding tax at a rate of 10.0%. Given that the PRC EIT Law has been promulgated only recently, its implementation has yet to be further clarified in practice. Moreover, our historical operating results may not be indicative of our operating results for future periods as a result of the expiration of the tax holidays we enjoy.

Pursuant to the Provisional Regulations on value-added tax and their implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay value-added tax at a rate of 17.0% of the gross sales proceeds received, less any deductible value-added tax already paid or borne by the taxpayer. Furthermore, when exporting goods, the exporter is entitled to the refund of some or all of the value-added tax that it has already paid or borne. Imported raw materials that are used for manufacturing export products and are deposited in bonded warehouses are exempt from import value-added tax.

FOREIGN CURRENCY EXCHANGE

Foreign currency exchange in China is primarily governed by the following regulations:

- Foreign Exchange Administration Rules (外匯管理條例) (1996), as amended (1997 and 2008); and

- Regulations on the Control Of Settlement, Sale and Payment of Exchange (結匯、售匯及付匯管理規定) (1996).

Under the Foreign Exchange Administration Rules, the Renminbi is freely convertible for current account items, including distribution of dividends, payment of interest, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loans, securities investment and investment repatriation, however, is still subject to the approval of SAFE.

Under the Regulations on the Control Of Settlement, Sale and Payment of Exchange, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the MOFCOM, SAFE and NDRC.

DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include:

- Wholly Foreign-Owned Enterprise Law (中華人民共和國外資企業法) (1986), as amended (2000); and

- Wholly Foreign-Owned Enterprise Law Implementation Rules (中華人民共和國外資企業法實施細則) (1990), as amended (2001).

Under these regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10.0% of its after-tax profit based on PRC accounting standards each year to a general reserves until the accumulative amount of such reserves reaches 50.0% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

CIRCULAR NO. 75

On October 21, 2005, SAFE issued Circular No. 75, which became effective as at November 1, 2005. According to Circular No. 75 and the related clarifications issued since then, prior registration with the local SAFE branch is required for PRC natural or legal person residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC and raising funds from overseas. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore company.

Circular No. 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration procedures with the local SAFE branch by March 31, 2006. Under the relevant rules, failure to comply with the registration procedures set forth in Circular No. 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity. If any PRC shareholder of any offshore company fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore company may also be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore company. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. PRC residents who control our Company from time to time are required to register with the SAFE in connection with their investments in us and have done so.

REGULATIONS OF OVERSEAS INVESTMENTS AND LISTINGS

On September 8, 2006, the "Rules on the Acquisition of Domestic Enterprises by Foreign Investors in the PRC" (關於外國投資者併購境內企業的規定), or the M&A Rules, came into effect. Under the M&A Rules, a foreign investor is required to obtain necessary regulatory approvals when it (i) acquires equity interests 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 conducts asset acquisition from a domestic enterprise; or (iv) acquires 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, an approval from the CSRC is required for the Global Offering.

According to our PRC legal adviser, Jun He Law Offices, our Company has never conducted any merger and acquisition activities described in the M&A Rules after September 8, 2006. As a result, the M&A Rules are not applicable to the Global Offering and the Global Offering does not require the approval of the CSRC.

OUR BUSINESS DEVELOPMENT

Overview

Our Group was founded in August 2003 when Dongying Shengli, our principal operating subsidiary which housed all our operating production facilities as at the Latest Practicable Date, was established as a WFOE in the PRC. Our existing BDO production facility was originally acquired from an Independent Third Party shortly after the establishment of Dongying Shengli in August 2003 with an initial designed BDO and GBL production capacity of approximately 20,000 tpa and 4,500 tpa, respectively. Following our acquisition of this facility, we made various design and technical improvements to our BDO production process and acquired additional equipment. As at January 2007, our designed BDO and GBL production capacity was increased to approximately 35,000 tpa and 17,000 tpa, respectively, and we had expanded our product pipeline to include THF, another derivative product of BDO with a designed production capacity of 5,000 tpa.

With a view of vertically integrating the production of maleic anhydride, the principal raw material used in our BDO production and securing its supply, Dongying Shengli acquired and took over a maleic anhydride production facility in August 2007 with an initial designed production capacity of approximately 15,000 tpa. We commenced producing maleic anhydride in-house for our BDO production use in December 2009 which successfully lessened our reliance on third-party supply of maleic anhydride.

In anticipation of the establishment of a new production base in Zibo, Shandong Province to house our planned new BDO and PBS production facilities, Full Win New Material was established as a WFOE in the PRC in April 2008. We are close to completing the construction of a 500-liter PBS laboratory facility which would be used for testing formulations for and trial production of various types of PBS and PBS copolymer downstream products. The PBS laboratory facility is scheduled to be completed by end of November 2010 and put into operation by December 2010. Construction of two PBS production lines with designed production capacity of 5,000 tpa and 20,000 tpa, respectively, which constitute the first phase of our three-phase PBS production capacity expansion plan, is currently under way and is scheduled to be completed by June 2011 and September 2011, respectively. As at the Latest Practicable Date, we had entered into non-legally binding letters of intent, valid up to December 31, 2013, with several Independent Third Party PRC manufacturers of medical supplies, packaging and hygienic disposables for intended PBS and PBS copolymers orders totaling over 17,000 tons per annum. On the other hand, construction of our new, 55,000 tpa BDO production facility with a designed BDO, GBL and THF production capacity of approximately 46,800 tpa, 6,600 tpa and 1,600 tpa, respectively, has commenced and is currently scheduled to be completed by June 2011.

Milestones in our business development

Immediately following its establishment in August 2003, Dongying Shengli and Shandong Shengming, an Independent Third Party, entered into an asset transfer agreement, pursuant to which Dongying Shengli agreed to acquire from Shandong Shengming a BDO production facility with a designed BDO and GBL production capacity

of 20,000 tpa and 4,500 tpa, respectively, together with (i) the buildings and structures accompanying the BDO production facility; (ii) a parcel of land situated adjacent to the BDO production facility and houses a maleic anhydride production facility which was later acquired and took over by Dongying Shengli in August 2007; and (iii) the buildings and structures erected on the said parcel of land. The BDO production facility was the only one adopting the DAVY Process in the PRC at the time of our acquisition. The total consideration for the acquisition amounted to approximately RMB205.9 million, which was arrived at with reference to the market value of the production facility endorsed by an independent PRC engineering firm. Our PRC legal advisers confirmed that the asset transfer agreement constituted legal, valid and binding obligations of all the parties thereto under the then applicable rules, regulations and laws of the PRC. In December 2003, Dongying Shengli settled the consideration in full. The said payment was financed partly by Dongying Shengli's registered capital and partly by a loan of RMB188.4 million provided by Mr. Zhang, our Controlling Shareholder. The said loan was subsequently repaid in full by Dongying Shengli out of its internally generated funds.

In June 2004, we commenced production of BDO and GBL. In 2005, we conducted design enhancements and equipment upgrades on the esterification and refining processes of our BDO production facility. By then, our BDO and GBL production capacity had reached 35,000 tpa and 17,000 tpa, respectively.

In December 2006, Dongying Shengli and Shandong Jiatai, a then 97.56% owned subsidiary of Shandong Shengming and an Independent Third Party, entered into an asset transfer agreement, pursuant to which Dongying Shengli agreed to acquire from Shandong Jiatai a maleic anhydride production facility with an initial designed production capacity of 15,000 tpa, which is situated on the parcel of land we acquired in 2003 (which is adjacent to our BDO production facility). Maleic anhydride is the principal raw material for the production of BDO using the DAVY Process. The consideration for the acquisition was RMB250.0 million, which was fully settled by Dongying Shengli with its internally generated funds by October 2007. After having formally taken over the maleic anhydride production facility in August 2007 and up to September 2009, we commissioned a number of process enhancements and equipment upgrades to the production facility, including replacements and additions of imported equipment, to improve production safety and enhance output efficiency. Following successful trial run, we commenced commercial production of maleic anhydride in December 2009. As at the Latest Practicable Date, all maleic anhydride produced in this production facility were consumed internally for our production of BDO and derivative products.

Dongying Intermediate People's Court confirmed that Shandong Shengming acquired the BDO production facility and the maleic anhydride production facility once owned by a sino-foreign joint venture company under Shengli Petroleum Management Bureau* (勝利石油管理局) through a bankruptcy auction. Both Shengli Petroleum Management Bureau* (勝利石油管理局) and Sinopec Shengli Oilfield Branch Petrochemical Factory* (中國石化勝利油田分公司石油化工總廠) ("**Sinopec Shengli**") have been under common control of Sinopec Group* (中國石化集團公司), a state-owned company, since 2000. Save for the aforesaid, to the best of our Directors' knowledge, Shandong Shengming has no past or present relationship with Sinopec Shengli, or any of its associates.

In January 2007, we expanded our product pipeline to include THF with a designed production capacity of 5,000 tpa. A derivative product of BDO, THF is one of the most popular end uses of BDO which is co-produced with BDO under the DAVY Process.

As part of our initial efforts to explore the market and the commercialization potential of BDO-based biodegradable PBS, we commissioned IPCCAS for a feasibility report on the construction of a 20,000 tpa PBS production facility, which was completed and issued in January 2008.

In May 2008 and September 2008, Dongying Shengli obtained the ISO9001: 2000 and ISO9001:2008 certifications for its BDO, GBL and THF production and service, respectively.

On July 27, 2009, we entered into a letter of intent with IPCCAS for the licensing of the IPCCAS Direct Polycondensation Process to construct a 20,000 tpa PBS production facility. The intention of the parties was subsequently formalised into a formal technology licensing agreement on December 30, 2009 (and supplemented by a supplemental licensing agreement dated October 29, 2010), under which we were granted a non-exclusive license to use the relevant PBS resin polymerization technologies in our PBS production facilities and our 500-liter PBS laboratory facility adopting the IPCCAS Direct Polycondensation Process.

In September 2010, we commenced construction of our production base in the New-Hi Tech Industrial Development Zone of Zibo City, to house our new BDO and PBS production facilities. For further details of our new production base in Zibo, please refer to the paragraph headed "Production Facilities – Proposed Zibo Expansion" under the section headed "Business" in the prospectus.

OUR CORPORATE HISTORY

As at the Latest Practicable Date, we had two wholly-owned PRC subsidiaries, namely Dongying Shengli and Full Win New Material. We indirectly own 100% equity interest of Dongying Shengli through King General, which in turn is wholly-owned by Full Smart. We indirectly own 100% equity interest of Full Win New Material through Mint World, which in turn is wholly-owned by Eminent Gains.

Historically, we carried out our business and generated our trading results principally from Dongying Shengli. We established Full Win New Material in April 2008 to house and operate our new BDO and PBS production facilities, both of which remained under construction as at the Latest Practicable Date.

Full Smart

On October 25, 2000, Full Smart was incorporated as an investment holding company in Samoa with an authorized share capital of US$1,000,000 divided into 1,000,000 shares of a nominal value of US$1 each. On November 30, 2000, one unpaid bearer share of US$1 was allotted and issued by Full Smart to Mr. Xu Tieliang, an Independent Third Party. On November 20, 2003, Mr. Xu Tieliang exchanged one bearer

share for a registered share of Full Smart at par value and on the same date, transferred this one share at par value to Smart Rise Holdings Ltd. ("**Smart Rise**"), a company incorporated in the BVI wholly owned by Mr. Xu Tieliang.

On November 27, 2003, Smart Rise and Mr. Zhang entered into a share transfer agreement pursuant to which Smart Rise agreed to transfer its 85% shareholding interests in Full Smart to Mr. Zhang at a consideration of RMB47.5 million, which was determined with reference to the then registered capital of Dongying Shengli of RMB40 million and other commercial considerations. The consideration for the said share transfer was paid by cash installments and settled in full by December 23, 2003. On the same date, Mr. Zhang and Mr. Xu Tieliang reached an entrustment arrangement (the "**Entrustment Arrangement**") whereby it was agreed that Mr. Xu Tieliang shall hold the 85% shareholding interests in Full Smart through Smart Rise on trust for Mr. Zhang since December 23, 2003. As confirmed with Mr. Zhang, when he first acquired the said 85% shareholding interests in Full Smart, he was fully engaged in the Group's business and his other businesses in the PRC and was not able to travel outside of the PRC for extended period of time or on a frequent basis. For personal arrangement convenience, Mr. Zhang reached the Entrustment Arrangement with Mr. Xu Tieliang to hold his interests in Full Smart through Smart Rise. The parties to the Entrustment Arrangement considered that such arrangement was intended to be a temporary arrangement and it was more convenient and time effective to reach a verbal agreement, therefore, the Entrustment Arrangement had not been put into writing by the parties at such time. As a result of the share transfer and the Entrustment Arrangement, Full Smart was beneficially owned as to 85% and 15% by Mr. Zhang and Smart Rise respectively.

On February 5, 2004, 99 shares of Full Smart were allotted and issued at par value to Smart Rise. On the same date, Mr. Zhang and Mr. Xu Tieliang agreed to terminate the Entrustment Arrangement between them and Smart Rise transferred the legal interest of 85 shares of Full Smart to Mr. Zhang at par value. Upon completion of the said share transfer, Mr. Zhang became the registered and beneficial shareholder of 85% shareholding in Full Smart while Smart Rise continued to legally and beneficially own the remaining 15% shareholding in Full Smart.

On September 21, 2007, Smart Rise transferred the remaining 15% shareholding interests in Full Smart to Mr. Zhang at a consideration of RMB3.6 million, as a result of which and before the Reorganization, Mr. Zhang became the sole registered and beneficial owner of Full Smart.

By two statutory declarations executed by each of Mr. Zhang and Mr. Xu Tieliang on December 4, 2009, it was declared that (i) Mr. Xu Tieliang had been holding the 85% share holding in Full Smart through Smart Rise on trust for Mr. Zhang since December 23, 2003 and the Entrustment Arrangement was terminated with effect from February 5, 2004; and (ii) as to the transfer of the remaining 15% shareholding interests in Full Smart on September 21, 2007, notwithstanding the stated consideration of US$15 (being the total par value of the 15% shareholding of Full Smart) on the transfer documents (including the instrument of transfer and the bought and sold notes) which were executed solely for the purpose of effecting the said share transfer, Mr. Zhang effected payment in cash totaling RMB3.6 million to Smart Rise on September 17, 2007 as consideration for the acquisition of

the 15% shareholding in Full Smart, which was verbally agreed upon by the parties with reference to the then registered capital of Dongying Shengli of RMB40 million and other commercial considerations.

King General

On August 18, 2009, King General was incorporated as an investment holding company in Hong Kong with an authorized share capital of HK$10,000 divided into 10,000 shares of a nominal value of HK$1 each. On the same date, King General allotted and issued one subscriber share to the initial subscriber who in turn transferred the same to Full Smart on September 23, 2009 at par value. Since then and prior to the Reorganization, King General had been directly wholly-owned by Full Smart.

Dongying Shengli

Dongying Shengli was established on August 28, 2003 as a WFOE by Full Smart in Dongying, Shandong Province, the PRC and remained a direct wholly-owned subsidiary of Full Smart prior to the Reorganization. At the time of establishment, Dongying Shengli had an approved registered capital of RMB40 million and an approved total investment of RMB80 million. According to the articles of association of Dongying Shengli, its registered capital was to be contributed, as to RMB20 million by cash and as to the remaining RMB20 million by asset injection, in full within six months from the date of establishment. At the time of its establishment, Dongying Shengli had an approved business scope of "production and sale of BDO and GBL, provision of technical and information consulting services in connection therewith", which was subsequently expanded in April 11, 2008. As at the Latest Practicable Date, Dongying Shengli had an approved business scope of "production and sale of chemical products such as THF (expired on June 6, 2013), BDO and GBL, research and development of new products and provision of technical and information consulting services".

According to the capital verification report issued by Shandong Tongsheng Certified Public Accountants Company Limited* (山東同盛會計師事務所有限公司) on September 5, 2003, the registered capital of RMB40 million was contributed in full, by way of cash of HK$19 million (equivalent to approximately RMB20.13 million) and injection of assets of RMB20 million, as at September 5, 2003. However, the acquisition price of the captioned assets of RMB20 million was consequently paid for by Dongying Shengli (instead of injected by Full Smart). As a result the registered capital of Dongying Shengli was not contributed in full in accordance with its constitutional documents. To rectify the capital contribution, Dongying Shengli applied to Dongying FTEC on August 21, 2007, and Dongying FTEC granted an approval on the same date, to change the form of registered capital contribution of Dongying Shengli to cash contribution in full. According to two capital verification reports from Zouping Jianxin Certified Public Accountants Company Limited* (鄒平鑒鑫有限責任會計師事務所) dated August 31, 2007 and September 29, 2007, Full Smart further contributed cash in the amount of HK$19,999,790 (equivalent to approximately RMB19,396,796.33) and HK$500,000 (equivalent to approximately RMB484,170), respectively, pursuant to which the registered capital of Dongying Shengli of RMB40 million was contributed in full by cash.

As advised by our PRC legal adviser, given that, (i) the change of the form of registered capital contribution was approved by Dongying FTEC; (ii) the registered capital of Dongying Shengli was subsequently contributed in full in cash, which was confirmed by capital verification reports issued by PRC certified public accountants and a revised business license reflecting the same was issued by Dongying AIC; and (iii) Dongying Shengli had since passed the subsequent annual corporate inspection by Dongying AIC, it would not affect the due establishment and valid existence of Dongying Shengli, as well as the validity of capital contribution to Dongying Shengli by Full Smart.

On September 29, 2007, Full Smart, being the sole equity holder of Dongying Shengli, resolved to increase the registered capital and total investment of Dongying Shengli to RMB180 million and RMB220 million, respectively. The proposed increase in registered capital and total investment was approved by Dongying FTEC on October 11, 2007. According to the capital verification report issued by Shandong Jianxin Certified Public Accountants Company Limited* (山東鑒鑫會計師事務所有限公司) on March 27, 2008, Full Smart made cash contribution of HK$43.3 million (equivalent to approximately RMB39,275,265) as registered capital of Dongying Shengli by cash as at March 27, 2008, and a revised business license with a registered capital of RMB180 million and paid up capital of RMB79.27 million (which included the previous capital contribution of approximately RMB40 million) was issued to Dongying Shengli on April 11, 2008.

On October 16, 2009, Dongying Shengli was granted an approval from Dongying FTEC to extend the period for the additional capital contribution to December 30, 2009. According to two capital verification reports issued by Shandong Jianxin Certified Public Accountants Company Limited* (山東鑒鑫會計師事務所有限公司) on March 16, 2010 and March 23, 2010, Full Smart contributed in cash in the amount of HK$75 million (equivalent to approximately RMB66,034,500) and HK$40 million (equivalent to approximately RMB35,188,800) as registered capital and/or reserve of Dongying Shengli on December 30, 2009 and March 22, 2010, respectively, pursuant to which the increased registered capital of Dongying Shengli of RMB180 million (which included the previous capital contribution of RMB79.27 million) was contributed in full by cash. A revised business license with a registered capital of RMB180 million and paid up capital of RMB180 million was issued to Dongying Shengli on April 12, 2010.

As advised by our PRC legal advisers, the delayed capital contribution would not affect the due establishment and valid existence of Dongying Shengli, as well as the validity of capital contribution to Dongying Shengli by Full Smart for the reasons that (i) a capital verification report was issued by PRC certified public accountants and registered with Dongying AIC in respect of each capital contribution; (ii) a revised business licence reflecting full contribution of registered capital was issued by Dongying AIC; and (iii) Dongying Shengli had passed the subsequent annual corporate inspection by Dongying AIC.

On March 23, 2010, Full Smart entered into an equity transfer agreement to transfer its 100% interests in Dongying Shengli to King General at a consideration of US$1 (the "**1st Dongying Shengli Equity Transfer**"). The 1st Dongying Shengli Equity Transfer was subsequently approved by relevant Dongying governmental authority on March 25, 2010. However, in or about January 2010, the Previous Potential Investor filed an administrative

action (the "**PRC Action**") with Shandong Province Dong Ying City Intermediate People's Court ("**Dongying People's Court**") against Dongying AIC for wrongful grant of de-registration and non-compliance with procedures then in effect, on the basis that the National Administration of Industry and Commence Equity Interests Pledges Registration Measures (《國家工商局股權出質登記辦法》) had taken effect on October 1, 2008, pursuant to which registration and/or de-registration of charges of PRC assets would require a "registration" procedure instead of a "filing" procedure as previously required. Based on an administrative ruling issued by the Dongying People's Court on April 13, 2010, the Previous Potential Investor voluntarily withdrew the PRC Action on the basis that Dongying AIC agreed with the position of the Previous Potential Investor that the Dongying Shengli Charge was not de-registered as at the date thereof. In response to the change of position of Dongying AIC on the de-registration of the Dongying Shengli Charge, the Company proceeded to rectify the de-registration of the Dongying Shengli Charge and on September 15, 2010 obtained the Notice of Equity Charge De-registration (the "**De-registration Notice**") issued by Dongying AIC announcing that the Dongying Shengli Charge was officially released as of the same date. In order to preempt any regulatory challenges on the 1st Dongying Shengli Equity Transfer which was completed prior to the issue of the De-registration Notice dated September 15, 2010, Full Smart and King General re-executed the transfer of the entire equity interest of Dongying Shangli on November 26, 2010 (the "**2nd Dongying Shengli Equity Transfer**"), on the same terms as the 1st Dongying Shengli Equity Transfer. The 2nd Dongying Shengli Equity Transfer was approved by the Bureau of Commerce of Dongying City (東營市商務局) and registered with Dongying AIC on the same day.

Eminent Gains

On July 30, 2009, Eminent Gains was incorporated as an investment holding company in the BVI with an authorized share capital of US$50,000 divided into 50,000 shares of a nominal value of US$1 each. On August 24, 2009, Eminent Gains allotted and issued one share to Mr. Zhang at par value. Since then and prior to the Reorganization, Eminent Gains had been directly wholly-owned by Mr. Zhang.

Mint World

On February 12, 2008, Mint World was incorporated as an investment holding company in Hong Kong with an authorized share capital of HK$10,000 divided into 10,000 shares of a nominal value of HK$1 each. On the same date, Mint World allotted and issued one subscriber share to the initial subscriber who in turn transferred the same to Max Talent on February 29, 2008 at par value. On September 1, 2009, Mint World allotted and issued 999 shares to Eminent Gains at par value. On the same date, Max Talent transferred its one share of Mint World to Eminent Gains at par value. Since then and prior to the Reorganization, Mint World had been directly wholly-owned by Eminent Gains.

Full Win New Material

In anticipation of the construction of a new production base in Zibo, Shandong Province, to house our new BDO and PBS production facilities, Full Win New Material was established on April 2, 2008 as a WFOE by Mint World in the PRC with an approved registered capital and total investment of HK$230 million. As at the Latest Practicable

Date, Full Win New Material had an approved business scope of "development of projects in relation to the production of 1-4 BDO, THF, GBL and degradable plastics (no production activity is permitted during the project development stage until October 1, 2010; valid Approval Certificate for Goods Subject to Administrative Supervision and Control up to March 27, 2011; valid Recommendation on Safety Control of Dangerous Chemicals Development Project up to March 24, 2011)". Full Win New Material will apply to obtain all necessary approvals including a renewed business licence with an expanded business scope to cover its production of BDO, THF, GBL, PBS, PBS copolymers and other degradable plastics before the commencement of any production activity.

In accordance with Full Win New Material's articles of association, Mint World should contribute 15% of the registered capital of Full Win New Material (that is HK$34.5 million) in full within three months from the date of issuance of the business license of Full Win New Material of April 2, 2008, that is, on or before July 2, 2008. On October 20, 2009, Full Win New Material obtained a retroactive approval from Zibo NHT Economic Development Bureau for the extension of the period for its initial capital contribution to August 7, 2009.

According to the capital verification report issued by Shandong Jianxin Certified Public Accountants Company Limited* (山東鑒鑫會計師事務所有限公司) ("**Shandong Jianxin CPA**") on August 8, 2009, Mint World had made cash contribution of HK$47,999,800 (representing about 20.87% of its approved registered capital) as registered capital of Full Win New Material as at August 7, 2009.

Aside from the prescribed time frame on the initial 15% capital contribution, Full Win New Material's articles of association also stipulated that Mint World should contribute the remaining 85% of the registered capital in Full Win New Material within two years from the date of issue of its business license, that is April 2, 2010. By a capital verification report dated October 9, 2009 issued by Shandong Jianxin CPA, Mint World made further capital contribution of HK$69,999,800 as registered capital of Full Win New Material as at September 30, 2009, with total paid up capital amounting to HK$117,999,600.

On 2 March 2010, the Bureau of Commerce of Zibo City (淄博市商務局) approved the increase in registered capital and total investment of Full Win New Material to HK$238 million and HK$570 million respectively and the corresponding revised business licence was issued on March 31, 2010.

Between March and June 2010, Mint World made four additional capital contributions totalling HK$71,999,400 as registered capital of Full Win New Material, details of which are as follows: (i) according to the capital verification report issued by Shandong Jianxin CPA on March 24, 2010, Mint World had made additional cash contribution of HK$6,999,800 as registered capital of Full Win New Material on March 24, 2010; (ii) according to the capital verification report issued by Shandong Jianxin CPA on May 5, 2010, Mint World had made additional cash contribution of HK$34,999,800 (equivalent to approximately RMB30.77 million) as registered capital of Full Win New Material on May 5, 2010; (iii) according to the capital verification report issued by Shandong Jianxin CPA on May 25, 2010, Mint World had made additional cash

contribution of HK$22,999,800 as registered capital of Full Win New Material on May 25, 2010; and (iv) according to the capital verification report issued by Shandong Jianxin CPA on June 1, 2010, Mint World had made additional cash contribution of HK$7,000,000 as registered capital of Full Win New Material on June 1, 2010. Upon completion of the aforesaid capital contributions, the total paid up capital of Full Win New Material amounted to HK$189,999,000 (representing about 79.83% of its approved registered capital).

On August 9, 2010, Full Win New Material obtained retroactive approvals from Zibo NHT Economic Development Bureau and Zibo Administration for Industry and Commence (淄博市工商行政管理局) whereby the due date for payment of the outstanding registered capital was extended to December 30, 2010. According to the two capital verification reports issued by Shandong Jianxin CPA on October 13, 2010 and November 11, 2010, Mint World had made further capital contribution of HK$19,999,880 and HK$28,001,120 as registered capital of Full Win New Material. Upon completion of the aforesaid cash contributions, the approved registered capital of Full Win New Material was fully settled.

PRE-IPO INVESTORS

IAM

IAM is an investment holding company incorporated in the BVI on February 15, 1996. It is wholly owned by Mr. Yam Tak Cheung ("**Mr. Yam**"). Mr. Yam is a professional investor and has substantial investments in a number of companies whose shares are listed on the Stock Exchange, including but not limited to approximately 3.86% shareholding in North Asia Resources Holdings Limited (stock code: 61) and approximately 7.88% shareholding in Kong Sun Holdings Limited (stock code: 295). Mr. Yam also indirectly holds approximately 55.13% shareholding in China Motion Telecom International Limited (stock code: 989) and approximately 24.39% shareholding in Rojam Entertainment Holdings Limited (stock code: 8075). Mr. Yam is not a director of any of the listed companies as stated above in which he has substantial investments.

(i) September 2009 Notes Subscription Agreement and September 2009 Exchangeable Notes

On September 26, 2009, Mr. Zhang, Apex Wide and IAM entered into a subscription agreement (the "**September 2009 Notes Subscription Agreement**"), pursuant to which Apex Wide agreed to issue and IAM agreed to subscribe for up to HK$120,000,000 aggregate principal amount of 10% exchangeable notes (the "**September 2009 Exchangeable Notes**") due 24 months from issuance (the "**Maturity Date**"), exchangeable into existing Shares held by Apex Wide from time to time, at the option of IAM at any time on and after the date of issue of the September 2009 Exchangeable Notes up to the earliest of: (a) the close of business on the date which is seven Business Days before the Maturity Date; (b) if such September 2009 Exchangeable Notes shall have been called for redemption before the Maturity Date, then up to the close of business on the date no later than seven Business Days prior to the date fixed for redemption; and (c) the **Mandatory Exchange Time (September 2009 Exchangeable Notes)**, defined as either of (aa) the Business Day immediately prior to Listing; or (bb) if so requested by the Stock Exchange,

anytime prior to submission of Form C1 by the Company so that the Company can comply with Rule 9.09 of the Listing Rules, and upon such time all outstanding September 2009 Exchangeable Notes shall be mandatorily and automatically exchanged. Pursuant to a supplemental deed entered into among Apex Wide, Mr. Zhang and IAM dated 15 September 2010, the definition of the Mandatory Exchange Time (September 2009 Exchangeable Notes) was revised as either of (a) the Business Day immediately prior to Listing; or (b) if so requested by the Stock Exchange, a date which is not later than the fourth day prior to the first expected hearing date.

In the September 2009 Notes Subscription Agreement, Mr. Zhang agreed to undertake that he shall hold, directly or indirectly through any of his associates, 65% or more of the issued share capital of our Company (the "**65% Minimum Shareholding**") after closing of the transaction as contemplated under the September 2009 Notes Subscription Agreement but prior to the Listing, unless (i) any failure to meet the 65% Minimum Shareholding was due to a dilution in shareholding resulted from an adjustment made pursuant to the terms and conditions of the September 2009 Exchangeable Notes (details of which are set out below); or (ii) otherwise permitted with the consent of IAM.

On November 6, 2009, December 4, 2009 and August 10, 2010 respectively, Mr. Zhang, Apex Wide and IAM entered into three supplemental deeds to the September 2009 Notes Subscription Agreement whereby it was agreed that the 65% Minimum Shareholding shall be reduced from 65% to 54%.

The September 2009 Exchangeable Notes carry an exchangeable interest (the "**IAM Exchangeable Interest**") which, upon exchange, shall represent a percentage of shareholding interest in the issued share capital of our Company calculated as:

A = 14% x B/HK$120,000,000

where

"A" = IAM Exchangeable Interest, subject to adjustment from time to time pursuant to the terms and conditions of the September 2009 Exchangeable Notes; and

"B" = total principal amount of the September 2009 Exchangeable Notes so exchanged;

In other words, the IAM Exchangeable Interest shall amount to 14% shareholding interest in the issued share capital of our Company upon full exchange of the aggregate principal amount of HK$120,000,000 September 2009 Exchangeable Notes. The IAM Exchangeable Interest shall not be diluted as a result of any transfer or issuance of Shares prior to the Global Offering. Simultaneously with such transfer or issuance of Shares, Apex Wide shall transfer such number of Shares to IAM so as to maintain the IAM Exchangeable Interest as if no Shares were transferred or issued.

The IAM Exchangeable Interest is also subject to performance target adjustments with reference to the net profit of our Group for each of the two years ending December 31, 2010, calculated as:

A = D x C/B

where

"A" = Adjusted IAM Exchangeable Interest;
"B" = Actual NPAT for 2009 or 2010 (as the case may be);
"C" = 2009 NPAT Target or 2010 NPAT Target (as the case may be);
"D" = Current Exchangeable Interest (after adjustment relating to 2009 NPAT Target, if any);
"NPAT" means our Company's consolidated audited after tax net profit and adjusted to exclude any finance costs and interest expenses associated with any pre-IPO investments;
"2009 NPAT Target" means the NPAT for 2009 which shall be at least HK$170 million; and
"2010 NPAT Target" means the NPAT for 2010 which shall be at least HK$200 million.

The above adjustment formula shall also apply retrospectively to any part of the Notes already exchanged into Shares prior to the relevant adjustment. In other words, if our Group fails to meet 2009 NPAT Target or 2010 NPAT Target, then irrespective of whether the September 2009 Exchangeable Notes have been partially or wholly exchanged into the Shares, Apex Wide is required to deliver certain number of additional Shares to IAM calculated in accordance with the aforesaid adjustment formula. By way of example, if the Actual NPAT for 2009 is HK$100,000,000 and the initial Exchangeable Interest is 1%, the Exchangeable Interest shall be adjusted upwards as:

A = 1 %* HK$170,000,000/HK$100,000,000 = 1.7%,

and further if the Actual NPAT for 2010 is HK$160,000,000, the Exchangeable Interest shall be adjusted upward as:

A = 1.7% * HK$ 200,000,000/HK$160,000,000 = 2.125%.

However, IAM's right to receive additional Shares as a result of any adjustment to the IAM Exchangeable Interest based on the 2009 NPAT and the 2010 NPAT shall immediately cease and terminate on the Mandatory Exchange Time (September 2009 Exchangeable Notes).

It should be noted that the 2009 NPAT Target and the 2010 NPAT Target are subjective targets agreed to between the parties as part of the terms of the September 2009 Exchangeable Notes, and should not be considered as a profit forecast as it is a private arrangement between the parties and the figures were arrived at based on negotiations between the parties at that time with regard to the historical performance of our Company.

The aggregate amount of HK$120,000,000 invested by IAM under the September 2009 Notes Subscription Agreement was paid in full on September 28, 2009. Out of the aggregate amount of HK$120,000,000, HK$118,000,000 was injected into our Group by way of shareholder's loan from Apex Wide and used for paying up the registered capital of Full Win New Material. The remaining HK$2 million out of the total investment amount was retained by Mr. Zhang for his personal use.

Subject to the grant of the Listing approval, IAM will exercise the rights attaching to the aggregate HK$120,000,000 worth of September 2009 Exchangeable Notes on December 10, 2010 (being the Business Day immediately preceding the Listing Date), pursuant to which certain number of Shares will be transferred by Apex Wide to IAM, representing approximately 10.5% of the issued share capital in our Company as enlarged by the Shares to be allotted and issued pursuant to the Global Offering and the Capitalization Issue (without taking into account any Shares which may be allotted and issued pursuant to the Over-allotment Option).

(ii) Investor's rights agreement

In conjunction with the September 2009 Notes Subscription Agreement, an investor's rights agreement was entered into among Apex Wide, Mr. Zhang and IAM on September 28, 2009 pursuant to which IAM has been granted the rights to (without limitation):

- receive annual and quarterly consolidated financial statements of Apex Wide;
- visit and inspect Apex Wide's properties (including our Group), to examine the books and records of Apex Wide and to discuss the affairs, finances and accounts of Apex Wide with its officers;
- participate, together with other selling shareholders, in selling its Shares at the Global Offering on a pro-rata basis;
- appoint one director to the board of directors of each of Apex Wide and our Company; and
- receive all management letters of accountants, written notification of (i) default or breach of material agreement(s); (ii) material legal or regulatory proceeding, action or documentation relating to governmental investigation and governmental or regulatory investigation, copies of material regulatory reference, orders, decisions and rulings, relating to our Group.

Additionally, the investor's rights agreement has specified certain matters (applicable to both Apex Wide and our Group) which would require affirmative vote of at least two directors of which one should be appointed by IAM, including (without limitation) related party transactions, dividend payments, budgets and significant expenditure, share buy-backs, group restructurings, change of scope or nature of business, change of auditors or accounting rules and selected material business related undertakings (eg. acquisition and disposal of material assets and/or equity interests,

significant increase in indebtedness and/or exposure to liabilities, etc.). It is also provided that certain matters (applicable to both Apex Wide and our Group) that would reasonably be expected to have material adverse impact on IAM (as investor) must be subject to unanimous vote of all directors, including (without limitation) alteration of constitutional documents, reorganization of share/registered capital and grant of options or rights on equity interests, corporate merger/amalgamation/consolidation, winding-up or liquidation and increase in size of board of directors. The investor's rights agreement will lapse and be automatically terminated upon Listing.

(iii) Indemnification Agreement

On November 16, 2010, Mr. Wu Chi Chiu ("**Mr. Wu**"), nominated by and representing IAM, was appointed as a non-executive Director and entered into an indemnification agreement (the "**Indemnification Agreement**") with our Company.

Pursuant to the Indemnification Agreement and subject to the limitation referred to in the Indemnification Agreement, our Company shall indemnify Mr. Wu if he is a party to or threatened to be made a party to or is otherwise involved in any action, suit, arbitration, alternate dispute resolution mechanism, or any other proceeding (the "**Proceeding**") (including but not limited to any Proceeding by or in the right of our Company to procure a judgment in its favour), by reason of the fact that he is or was a director, officer, employee or agent of our Company or any subsidiary of our Company, or is or was serving at the request of our Company or any subsidiary of our Company as a director, officer, employee or agent of another enterprise, against all expenses, judgments, fines, interest or penalties, and excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by him in connection with such a Proceeding (or in case of any Proceeding by or in the right of our Company to procure a judgment in its favour, the defense or settlement of such a Proceeding), in any case to the fullest extent permitted by applicable law, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of our Company, and with respect to any criminal Proceeding, had no reasonable cause to believe his conduct was unlawful.

Notwithstanding any other provision of the Indemnification Agreement (save for the exception as set forth in the paragraph (a) of the paragraph headed "(iii) Indemnification Agreement" under the Sub-section headed "IAM"), to the extent that Mr. Wu (a) has prepared to serve or has served as a witness in any Proceeding in any way relating to (i) our Company or any of our Company's subsidiaries, affiliates, employee benefit or welfare plans or such plan's participants or beneficiaries or (ii) anything done or not done by him as a director of our Company or in connection with serving at the request of our Company as an agent of another enterprise, or (b) has been successful in defense of any Proceeding or in defense of any claim, issue or matter therein, on the merits or otherwise, including the dismissal of a Proceeding without prejudice or the settlement of a Proceeding without an admission of liability, he shall be indemnified against all expenses actually and reasonably incurred by him in connection therewith, in any case to the fullest extent permitted by applicable law in accordance with the Indemnification Agreement.

Regardless of anything else contained in the Indemnification Agreement, no payments or indemnity pursuant to the Indemnification Agreement shall be made by our Company:

(a) To indemnify or advance funds to Mr. Wu for expenses with respect to (i) Proceedings initiated or brought voluntarily by him and not by way of defense, except with respect to Proceedings brought to establish or enforce a right to indemnification under the Indemnification Agreement or any other statute or law or otherwise as required under applicable law or (ii) expenses incurred by him in connection with preparing to serve or serving as a witness in cooperation with any party or entity who or which has threatened or commenced any action or proceeding against our Company, or any director, officer, employee, trustee, agent, representative, subsidiary, parent corporation or affiliate of our Company (other than where he is compelled to so serve pursuant to his fiduciary duties to our Company), but such indemnification or advancement of expenses in such case may be provided by our Company if the Board finds it to be appropriate;

(b) To indemnify Mr. Wu for any expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, and sustained in any Proceeding for which payment is actually made to him under a valid and collectible insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) To indemnify Mr. Wu for any expenses, judgments, fines, expenses or penalties sustained in any Proceeding for an accounting of profits made from the purchase or sale by him of securities of our Company pursuant to the provisions of any law and regulation of the relevant jurisdiction;

(d) To indemnify Mr. Wu for any expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, for which he is indemnified by our Company otherwise than pursuant to the Indemnification Agreement or to the extent he has otherwise actually received payment of the amounts otherwise indemnifiable hereunder;

(e) To indemnify Mr. Wu for any expenses (including without limitation any expenses relating to a Proceeding attempting to enforce the Indemnification Agreement), judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, on account of his conduct if such conduct shall be finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct; or

(f) If a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful or otherwise impermissible.

No monetary cap is set on the amount to be indemnified pursuant to the Indemnification Agreement.

All agreements and obligations of our Company contained in the Indemnification Agreement shall continue during the period that Mr. Wu is a Director (or is or was serving at the request of our Company as an agent of another enterprise, foreign or domestic) and shall continue thereafter so long as he shall be subject to any possible Proceeding by reason of the fact that he was a Director or serving in any of the aforesaid capacity.

(iv) Termination of special rights upon Listing

All special rights granted to IAM as disclosed in this sub-section will be terminated upon Listing.

CCAM

CCAM is an investment holding company incorporated in Hong Kong on April 21, 1999. It is a wholly owned subsidiary of Well Kent, which in turn is wholly owned by China Cinda, a wholly state-owned financial corporation established on April 19, 1999 in the PRC under the authorization of the State Council with a registered capital of RMB10.0 billion injected from the Ministry of Finance of the PRC. The principal business of China Cinda includes the acquisition and operation of non-performing assets of China Construction Bank and China Development Bank.

(i) November 2009 Notes Subscription Agreement and 2009 Exchangeable Notes

On November 30, 2009, Mr. Zhang and Apex Wide entered into a subscription agreement (the "**November 2009 Notes Subscription Agreement**") with, among others, CCAM, CCB International Capital Limited and the Exit Investors, pursuant to which Apex Wide agreed to issue and CCAM and the Exit Investors agreed to subscribe for up to HK$180,000,000 aggregate principal amount (in which CCAM, Exit Investor 1 and Exit Investor 2 agreed to subscribe for HK$80,000,000, HK$70,000,000 and HK$30,000,000 respectively) of 8.5% exchangeable notes due 36 months from issuance (the "**November 2009 Exchangeable Notes**"), exchangeable into existing Shares held by Apex Wide from time to time, at the option of CCAM and the Exit Investors at any time on and after the date of issue of the November 2009 Exchangeable Notes up to the earliest of: (a) the close of business in Hong Kong on the seventh Business Day before maturity; (b) if such November 2009 Exchangeable Notes shall have been called for redemption before maturity, then up to the close of business in Hong Kong on the date no later than the seventh Business Day prior to the date fixed for redemption; and (c) the **Mandatory Exchange Time (November 2009 Exchangeable Notes)**, defined as either of (aa) the Business Day immediately prior to Listing; or (bb) if so requested by the Stock Exchange, a date which is not later than the fourth day immediately prior to the first expected hearing date, and upon such time all outstanding November 2009 Exchangeable Notes shall be mandatorily and automatically exchanged. CCB International Capital Limited was engaged as the arranger and security agent pursuant to the November 2009 Notes Subscription Agreement. In consideration for services provided, CCB International Capital Limited received fees of approximately 2% of the principal amount of the November 2009 Exchangeable Notes actually issued and subscribed for. On March 25, 2010, the parties further entered into an amendment agreement to the November 2009 Notes Subscription Agreement (the "**Amendment Agreement**") with CIG, pursuant to

which, *inter alia*, Exit Investor 1 agreed to reduce its subscription from HK$70,000,000 to HK$30,000,000. For further details regarding CIG's subscription of the November 2009 Exchangeable Notes, please refer to the sub-section headed "CIG" below.

In the November 2009 Notes Subscription Agreement, Mr. Zhang agreed to undertake that he shall hold, directly or indirectly through any of his associates, 59% or more of the issued share capital of our Company (the "**59% Minimum Shareholding**") after closing of the transaction as contemplated under the November 2009 Notes Subscription Agreement but immediately prior to the Listing, unless (i) any failure to meet the 59% Minimum Shareholding was due to a dilution in shareholding resulted from an adjustment made pursuant to the terms and conditions of the November 2009 Exchangeable Notes (details of which are set out below); or (ii) otherwise permitted with the written consent of Exit Investor 1 only (as agreed among Exit Investor 1, CCAM and Exit Investor 2 under the November 2009 Notes Subscription Agreement). Pursuant to a supplemental deed entered into among Mr. Zhang, Apex wide and Exit Investor 1 on August 16, 2010, it was agreed that the 59% Minimum Shareholding shall be reduced to 54%.

Pursuant to the November 2009 Exchangeable Notes, CCAM and the Exit Investors have the right (the "**Exchange Right**") to exchange the November 2009 Exchangeable Notes into such number of Shares (the "**Exchange Shares**") (subject to adjustment) as derived from the formula below:

Exchange Shares = A/Exchange Price

where

"A" = the aggregate principal amount of the November 2009 Exchangeable Notes so exchanged; and

"Exchange Price" = (a) HK$180,000,000 divided by the number of Shares representing 18% of the total issued share capital of the Company on a fully diluted basis at the time of exercise of the Exchange Right; or

(b) where the Exchange Right is being exercised immediately prior to the completion of the Qualified IPO (which means the completion of the Global Offering), the lower of:

(i) HK$180,000,000 divided by the number of Shares representing 18% of the total issued share capital of the Company on a fully diluted basis immediately prior to the completion of the Qualified IPO; and

(ii) 70% of the Offer Price.

If the Exchange Price is higher than 70% of the Offer Price, then Apex Wide shall within 10 business days of the last day of its lock-up period, transfer to CCAM and each of the Exit Investors certain number of additional Shares representing the difference between the number of Shares received by CCAM, Exit Investor 1 or Exit Investor 2 upon exercise of its Exchange Right and the number of Shares that CCAM, Exit Investor 1 or Exit Investor 2 would have been entitled to receive based on 70% of the Offer Price (the "**Additional Post-IPO Shares**") or pay to CCAM and the Exit Investors cash equal to the number of the Additional Post-IPO Shares multiplied by the closing price of the Shares on its first trading day upon Listing. Such right to receive the Additional Post-IPO Shares or cash equivalent was subsequently terminated pursuant to the October 2010 Supplemental Deed (as defined below). For further details, please refer to the paragraph headed "*(ii) October 2010 Supplemental Deed*" under this sub-section.

The number of Exchange Shares to be received upon exchange and the Exchange Price shall be subject to the following adjustments:

(a) Adjustments based on performance

If our Group fails to meet any of the 2009 NPAT Target, the 2010 NPAT Target or the 2011 NPAT Target (as defined below), then irrespective of whether the Exchange Right has been exercised by CCAM or the Exit Investors, CCAM, Exit Investor 1 or Exit Investor 2 may give Apex Wide a notice electing one of the following adjustments:

Issue of Additional Exchange Shares

The number of Exchange Shares is subject to performance target adjustments with reference to the net profit of our Group for each of the three years ending December 31, 2011 and CCAM, Exit Investor 1 or Exit Investor 2 may request Apex Wide, by serving a notice in writing (the "**Performance Election Notice**"), to transfer such number of additional Exchange Shares (the "**Additional Exchange Shares**") thereto in the event that our Company fails to meet any of the 2009 NPAT Target (as defined below), the 2010 NPAT Target (as defined below) or the 2011 NPAT Target (as defined below) without any consideration in accordance with the following adjustment formula:

$$A = D \times (C - B) / C$$

where

"A" = Additional Exchange Shares;
"B" = Actual NPAT for 2009, 2010 or 2011 (as the case may be);
"C" = 2009 NPAT Target, 2010 NPAT Target or 2011 NPAT Target (as the case may be);
"D" = The number of Exchange Shares as at the date of the Performance Election Notice;

"NPAT" means our Company's consolidated audited after tax net profit provided in the annual report for each of financial years 2009, 2010 and 2011;

"2009 NPAT Target" means RMB170 million;
"2010 NPAT Target" means RMB200 million; and
"2011 NPAT Target" means RMB350 million.

The 2009 NPAT, the 2010 NPAT and the 2011 NPAT are subjective targets agreed to among the parties as part of the terms of the November 2009 Exchangeable Notes, and should not be considered as a profit forecast as it is a private arrangement among the parties and the figures were arrived at based on negotiations among the parties at that time with regard to the historical performance of our Company.

Performance Cash Settlement

Instead of receiving the Additional Exchange Shares, CCAM, Exit Investor 1 or Exit Investor 2 may elect to receive cash for the Additional Exchange Shares in the Performance Election Notice. The amount of such cash payment shall equal to the Performance Cash Settlement Amount, which is equivalent to the Redemption Amount (principal amount plus any interest accrued at the rate of 25% per annum compounded annually) of the Additional Exchange Shares which CCAM, Exit Investor 1 or Exit Investor 2 would be entitled to receive.

Performance Put Option

If CCAM, Exit Investor 1 or Exit Investor 2 has already exercised the Exchange Right in respect of all or any part of the November 2009 Exchangeable Notes, it may elect to exercise the "Performance Put Option" in the performance election notice and Apex Wide will be obligated to purchase all Exchange Shares held by it at the performance put price, which is equivalent to the redemption amount (principal amount plus any interest accrued at the rate of 25% per annum compounded annually) of the Exchange Shares held by it as at the date of such performance election notice.

Subject to the provisions in the October 2010 Supplemental Deed (as defined below), the aforesaid right of CCAM and the Exit Investors to receive Additional Exchange Shares, cash equivalent to the Performance Cash Settlement Amount or Performance Put Option as a result of the adjustment to the number of Exchange Shares based on performance (the "**Performance Target Adjustment Right**") shall continue to be effective after Listing.

(b) Adjustments to Exchange Price

The Exchange Price shall be subject to adjustment in the following events:

(i) any alteration to the nominal value of the Shares as a result of consolidation, subdivision, reclassification or redomination;

(ii) the issue of Shares credited as fully paid to the Shareholders by way of capitalization of profits or reserves, share dividends or otherwise by virtue of being holders of Shares including Shares paid up out of distributable profits or reserves and/or share premium account issued, save where the Shares are issued in lieu of the whole or any part of a specifically declared cash dividend, being a dividend which the Shareholders concerned would or could otherwise have received and would not have constituted a capital distribution;

(iii) the issue of Shares to Shareholders by the Company, by way of rights, or issue or grant to Shareholders, by way of rights, options or warrants to subscribe for or purchase new Shares, at less than the fair market value (the "**Fair Market Value**") per Share as determined by an independent accountant);

(iv) the issue of any securities (other than Shares or options, warrants or other rights to subscribe for or purchase new Shares) by the Company to Shareholders by way of rights;

(v) the issue of Shares (other than any Shares issued on the exercise of Exchange Right or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant options, warrants or other rights to subscribe or purchase Shares in each case at less than the Fair Market Value on the last day immediately preceding the date of announcement of the terms of such issue or grant; or

(vi) (x) any modification of the rights of conversion, exchange, subscription or redesignation attaching to any options, rights or warrants to subscribe for or purchase Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase Shares (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities as originally issued) or (y) Apex Wide determines that an adjustment should be made to the Exchange Price as a result of one or more events or circumstances not referred to in paragraphs (i) to (v) above which would have an analogous effect.

No adjustment to the Exchange Shares shall be made to the extent such adjustment would be duplicative with an adjustment already made with respect to the applicable event.

On December 30, 2009, an aggregate principal amount of HK$80,000,000 worth of the November 2009 Exchangeable Notes were issued to CCAM.

The aggregate amount of HK$80,000,000 paid by CCAM on December 30, 2009 under the November 2009 Notes Subscription Agreement was fully injected into our Group by way of shareholder's loan from Apex Wide. HK$5 million out of the total

investment was injected into Mint World and used for administrative and listing expenses, while the remaining portion was used for paying up the registered capital of Dongying Shengli.

Pursuant to the November 2009 Exchangeable Notes, a share charge may be given by Mr. Zhang if the Listing fails to be completed within 270 days after the date of the November 2009 Notes Subscription Agreement (the "**Listing Deadline**"), but subject to the approval of IAM's appointed director in the board of directors of Apex Wide. On August 30, 2010, a supplemental deed was entered into among Mr. Zhang, Apex Wide, CCAM, CIG and CCB International Capital Limited (as security agent only), pursuant to which the parties agreed to extend the Listing Deadline for a further 180 days. As such, Mr. Zhang will only be required to charge the shares in Apex Wide as well as the Shares held by himself in favour of CCAM and CIG in the event that the Listing fails to be completed on or before February 22, 2011. As at the Latest Practicable Date, no share charge has been created by Mr. Zhang in favour of CCAM and CIG in this regard.

(ii) October 2010 Supplemental Deed

On October 29, 2010, Mr. Zhang, Apex Wide, CCAM, CIG and CCB International Capital Limited (as security agent only) entered into a second supplemental deed (the "**October 2010 Supplemental Deed**") to ensure that (i) Mr. Zhang will not cease to be the Controlling Shareholder as a result of the adjustments based on the performance of our Company as set out above in the paragraph headed "(i) November 2009 Notes Subscription Agreement and 2009 Exchangeable Notes" under this sub-section; and (ii) there is no guaranteed discount for the exchange price of the November 2009 Exchangebale Notes as compared to the Offer Price.

Pursuant to the October 2010 Supplemental Deed, the provisions relating to the Performance Target Adjustment Right were amended as follows:

(a) if the requested transfer of the Additional Exchange Shares to CCAM and/or CIG in accordance with the terms and conditions of the November 2009 Exchangeable Notes would result in Mr. Zhang immediately after such transfer owning less than 30% of the total issued share capital of our Company for the time being and/or ceasing to be the Controlling Shareholder, the maximum number of additional Exchange Shares that CCAM and/or CIG shall be entitled to shall not exceed the difference between the number of Shares held by Mr. Zhang and the number of Shares representing 30% of the total issued share capital of our Company on the completion date of such requested transfer; and

(b) Apex Wide shall pay cash for any shortfall between the Additional Exchange Shares for CCAM (and/or CIG) and the number of additional Exchange Shares to be transferred to CCAM (and/or CIG) as calculated by applying the formula in relation to the performance cash settlement set out in the terms and conditions of the November 2009 Exchangeable Notes.

In addition, pursuant to the October 2010 Supplemental Deed, CCAM and CIG agreed to give up the right to receive the Additional Post-IPO Shares or cash

equivalent as disclosed above in the paragraph headed "*(i) November 2009 Notes Subscription Agreement and 2009 Exchangeable Notes*" in this sub-section with effect from the date thereof.

Subject to the grant of the Listing approval, CCAM will exercise the rights attaching to HK$80,000,000 worth of November 2009 Exchangeable Notes on December 10, 2010 (being the Business Day immediately preceding the Listing Date), pursuant to which certain number of Shares will be transferred by Apex Wide to CCAM, representing approximately 6% of the issued share capital of our Company as enlarged by the Shares to be allotted and issued pursuant to the Global Offering and the Capitalization Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option).

(iii) Investors' rights agreement

In conjunction with the November 2009 Notes Subscription Agreement, an investors' rights agreement was entered into among Apex Wide, Mr. Zhang, CCAM and the Exit Investors on November 30, 2009 pursuant to which each of CCAM and the Exit Investors has been granted (without limitation):

- the right to receive annual, half-yearly, quarterly and monthly consolidated financial statements of Apex Wide;
- the right of first offer for any future sales of shares, or securities convertible into or exercisable for any shares of Apex Wide, our Company or any member of the Group;
- the right to visit and inspect Apex Wide's properties (including our Group), to examine the books and account of Apex Wide and to discuss the affairs, finances and accounts of Apex Wide with its officers;
- the right to participate, together with other selling shareholders, in selling its Shares at the Global Offering on a pro-rata basis;
- (for Exit Investor 1 only) the right to appoint one director to the board of directors of each of Apex Wide and our Company; and
- the right to receive management letters of accountants, written notification of default or breach of material agreement(s), material legal, regulatory or governmental proceeding, investigations, orders, decisions and rulings, relating to our Group.

Additionally, the investors' rights agreement has specified certain matters (applicable to both Apex Wide and our Group) which would require affirmative vote of the director appointed by Exit Investor 1, including (without limitation) related party transactions, dividend payments, budgets and significant expenditure, share buy-backs, group restructurings, change of scope or nature of business, change of auditors or accounting rules and selected material business

related undertakings (for example, acquisition and disposal of material assets and/or equity interests, significant increase in indebtedness and/or exposure to liabilities, etc.). It is also provided in the investors' rights agreement that certain matters (applicable to both Apex Wide and our Group) that would reasonably be expected to have material adverse impact on CCAM or either of the Exit Investors must be subject to unanimous vote of all directors, including (without limitation) alteration of constitutional documents, reorganization of share/registered capital and grant of options or rights on equity interests, corporate merger/amalgamation/consolidation, winding-up or liquidation and increase in size of board of directors. The investors' rights agreement will lapse and be automatically terminated upon Listing.

(iv) Non-participation Agreement

On August 16, 2010, Apex Wide, Mr. Zhang, CCAM, CIG, CCB International Capital Limited and the Exit Investors entered into a non-participation agreement (the "**Non-Participation Agreement**"), pursuant to which, (i) the Exit Investors would cease to be a party to each of the November 2009 Notes Subscription Agreement and the corresponding ancillary transaction documents; (ii) the Exit Investors will not subscribe for any of the November 2009 Exchangeable Notes; (iii) all rights and obligations of each of Exit Investors under the November 2009 Notes Subscription Agreement and the corresponding ancillary transaction documents shall be terminated forthwith effective from the "Effective Date" as defined in the Non-Participation Agreement, including the rights of giving consent to the introduction of new investors, the rights of giving consent for Mr. Zhang to lower the 59% Minimum Shareholding and the rights of appointing a director to the board of directors of Apex Wide and our Company, together with the consent/veto rights attaching thereto; (iv) Apex Wide shall pay to Exit Investor 1 HK$1.0 million as termination fee and reimburse Exit Investor 1 for all legal and other professional fees incurred in accordance with the terms of the November 2009 Notes Subscription Agreement; and (v) the terms and conditions of the November 2009 Notes Subscription Agreement and the corresponding ancillary transaction documents shall remain unchanged and shall continue to be in full force and effect as among Apex Wide, Mr. Zhang, CCAM, CIG and CCB International Capital Limited. However, no compensation or other amount was payable by Apex Wide and/or our Group to Exit Investor 2 in accordance with the terms of the November 2009 Notes Subscription Agreement and the Non-Participation Agreement. Up to the date on which the Non-Participation Agreement was entered into, no November 2009 Exchangeable Note was issued to the Exit Investors.

As provided in the November 2009 Notes Subscription Agreement, Exit Investor 1 is entitled to terminate the November 2009 Notes Subscription Agreement and receive from Apex Wide HK$1.0 million as termination fee in the event of non-fulfillment of any conditions precedent which is due to any reason attributable to Apex Wide or Mr. Zhang. As Apex Wide was unable to fulfill one of the conditions precedent, that it shall obtain a written confirmation from the Previous Potential Investor confirming that, among others, all the present, future, actual or contingent rights, liabilities, obligations, disputes, proceedings or claims in relation to its proposed investment have been fully terminated and/or released, Apex Wide was obliged to pay the termination fee of HK$1.0 million to Exit Investor 1 as mentioned in the previous paragraph.

(v) Termination of special rights upon Listing

Save for the Performance Target Adjustment Right as disclosed in the paragraph headed "*(i) November 2009 Notes Subscription Agreement and 2009 Exchangeable Notes*" in this sub-section, all other special rights granted to CCAM will be terminated upon Listing.

CIG

CIG is a company incorporated in the BVI on February 26, 2010 and is wholly owned by Ms. Cai Yunye. Ms. Cai is the sole director of Chinaland Investment. She was the business manager of finance department and deputy manager of development strategy department of China Guangxi Mobile Communications Company Limited.

(i) November 2009 Notes Subscription Agreement, Amendment Agreement and 2009 Exchangeable Notes

On March 25, 2010, the Amendment Agreement (as defined in the sub-section headed "CCAM" above) was entered into among Mr. Zhang, Apex Wide, CCAM, the Exit Investors, CIG and CCB International Capital Limited (as security agent only) pursuant to which the parties agreed that CIG shall subscribe for HK$40,000,000 of the November 2009 Exchangeable Notes (details of which are set out under the sub-paragraph headed "CCAM" above) while Exit Investor 1 shall reduce its subscription from HK$70,000,000 to HK$30,000,000; and that various amendments shall be made to the November 2009 Notes Subscription Agreement and the corresponding ancillary transaction documents to the effect that CIG shall be included as a party to the November 2009 Notes Subscription Agreement and each of the corresponding ancillary transaction documents and all references to CCAM and the Exit Investors as investors or noteholders (as the case may be) in the November 2009 Notes Subscription Agreement and the corresponding ancillary transaction documents shall include CIG. On the same date, a deed was entered into among Mr. Zhang, Apex Wide and CIG pursuant to which the parties agreed that a premium in the sum of HK$10,000,000 will be paid by CIG to Apex Wide in connection with its investment in the November 2009 Exchangeable Notes. It is further agreed that the principal amount of the November 2009 Exchangeable Notes to be subscribed for by CIG shall remain as HK$40,000,000 in exchange for 4% Shares pursuant to the terms and conditions of the November 2009 Notes Subscription Agreement and the Amendment Agreement. On March 19, 2010, CIG paid an aggregate prepayment of HK$50,000,000 to Apex Wide prior to the entering of the Amendment Agreement, which represented the principal amount of HK$40,000,000 worth of November 2009 Exchangeable Notes issued to CIG and the premium in the sum of HK$10,000,000 in connection with CIG's investment in the November 2009 Exchangeable Notes.

As one of the investors or noteholders (as the case may be) under the November 2009 Subscription Agreement and each of the corresponding ancillary transaction documents, CIG shall be entitled to all rights and obligations of CCAM and the Exit Investors thereunder (save and except the rights conferred only upon Exit Investor 1) as set out in the sub-section headed "CCAM" above. For a summary of the principal terms of the November 2009 Exchangeable Notes, please also refer to the sub-section headed "CCAM" above.

Subject to the grant of the Listing approval, CIG will exercise the rights attaching to HK$40,000,000 worth of November 2009 Exchangeable Notes on December 10, 2010 (being the Business Day immediately preceding the Listing Date), pursuant to which certain number of Shares will be transferred by Apex Wide to CIG, representing approximately 3% of the issued share capital of our Company as enlarged by the Shares to be allotted and issued pursuant to the Global Offering and the Capitalization Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option).

(ii) CIG SPA

On May 12, 2010, a further sale and purchase agreement (the "**CIG SPA**") was entered between Apex Wide and CIG pursuant to which Apex Wide agreed to sell, and CIG agreed to purchase, a certain number of Shares held by Apex Wide (which shall represent 2% of all the issued share capital of our Company as at the date of completion) at a consideration of HK$25,000,000, determined after arm's length negotiation between the relevant parties, on and subject to the terms and conditions set out in the CIG SPA. On the same date, two (2) Shares, representing 2% of the then issued share capital of our Company were transferred to CIG from Apex Wide at a cash consideration of HK$25,000,000.

The aggregate amount of HK$75,000,000 paid by CIG under the November 2009 Notes Subscription Agreement and the CIG SPA was paid in full on March 19, 2010 and May 17, 2010, respectively, and fully injected into our Group by way of shareholder's loan. HK$5 million out of the total investment was injected into Mint World and used for administrative and listing expenses, while the remaining portion was used for paying up the registered capital of Dongying Shengli and Full Win New Material.

(iii) Termination of special rights upon Listing

Save for the Performance Target Adjustment Right as disclosed in the sub-section headed "CCAM" in this section, all other special rights granted to CIG will be terminated upon Listing.

China Angel

China Angel is an investment holding company incorporated in the BVI on April 4, 2006. It is wholly owned by Mr. Jiang Qi Hang. Mr. Jiang is a director of China Angel Fund, an exempted company with limited liability incorporated in the Cayman Islands on March 28, 2008 engaged in investing mainly in companies listed in certain recognized markets such as Hong Kong, Taiwan and Singapore, etc, and companies listed in other emerging markets. Mr. Jiang has more than 13 years experience in financial and investment industry. He has worked for Credit Lyonnais Securities (Asia) Ltd, and was the director of securities sales in BNP Paribas Peregrine Securities Limited and the executive director in the Retail Brokerage Department of BOCI Securities (Hong Kong) Ltd.

A sale and purchase agreement as supplemented by a supplemental agreement (together the "**First China Angel SPA**") were entered into between Apex Wide and China Angel on April 25, 2010 and April 29, 2010 respectively pursuant to which Apex Wide agreed to sell, and China Angel agreed to purchase, a certain number of Shares held by Apex Wide (which shall represent 3% of all the issued share capital of our Company as at the date of completion) at a consideration of HK$37,500,000, determined after arm's length negotiation between the relevant parties, on and subject to the terms and conditions set out in the First China Angel SPA. On April 30, 2010, three (3) Shares representing 3% of the issued share capital of our Company were transferred to China Angel from Apex Wide at a cash consideration of HK$37,500,000.

On May 12, 2010, Apex Wide entered into another sale and purchase agreement (the "**Second China Angel SPA**") with China Angel pursuant to which Apex Wide agreed to sell, and China Angel agreed to purchase, a certain number of Shares held by Apex Wide (which shall represent 1% of all the issued share capital of our Company as at the date of completion) at a consideration of HK$12,500,000, determined after arm's length negotiation between the relevant parties, on and subject to the terms and conditions set out in the Second China Angel SPA. On the same date, one (1) Share representing 1% of the issued share capital of our Company was transferred to China Angel from Apex Wide at a cash consideration of HK$12,500,000.

The total consideration of HK$50,000,000 paid by China Angel pursuant to the First China Angel SPA and the Second China Angel SPA was paid in full on May 27, 2010 and fully injected into our Group by way of shareholder's loan. Out of the total consideration, HK$3.2 million was injected into Mint World for general working capital purposes and the remaining portion was injected into Full Win New Material for paying up its registered capital and for general working capital purposes.

No special right has been granted to China Angel under the First China Angel SPA and the Second China Angel SPA.

Sun Ascent

Sun Ascent is an investment holding company incorporated in the BVI on January 22, 2003, which is wholly owned by Mr. Qin Kebo, a non-executive Director. Mr. Qin Kebo is the chairman of China Sun Fund Management Co., Ltd*(中國陽光投資基金管理有限公司).

On November 16, 2009, Apex Wide entered into a sale and purchase agreement (the "**Sun Ascent SPA**") with Sun Ascent, pursuant to which Apex Wide agreed to sell, and Sun Ascent agreed to purchase, a certain number of Shares held by Apex Wide (which shall represent 9% of all the issued share capital of our Company as at the date of completion) (the "**Sun Ascent Consideration Shares**") at a consideration of HK$90,000,000, determined after arm's length negotiation between the parties, on and subject to the terms and conditions set out in the Sun Ascent SPA. On August 11, 2010, nine (9) Shares representing 9% of the then issued share capital of our Company was transferred to Sun Ascent from Apex Wide at a cash consideration of Renminbi equivalence of HK$90,000,000.

The total consideration of Renminbi equivalence of HK$90,000,000 paid by Sun Ascent pursuant to the Sun Ascent SPA was paid in full on July 28, 2010 and retained by Mr. Zhang for his personal use and will not be injected into our Group.

On October 29, 2010, Apex Wide entered into a deed (the "**Sun Ascent Deed**") with Sun Ascent, pursuant to which the parties thereto agreed that (i) the Sun Ascent Consideration Shares shall be revaluated according to the highest end of the then preliminary indicative offer price range (being HK$2.86) and the consideration therefor shall be adjusted upwards from HK$90,000,000 to HK$225,868,500 (the "**Adjusted Value (Sun Ascent Consideration Shares)**"); (ii) Sun Ascent shall pay to Apex Wide the difference between the Adjusted Value (Sun Ascent Consideration Shares) and the paid consideration under the Sun Ascent SPA (the "**Sun Ascent Balance**"), being HK$135,868,500 on or before November 4, 2010; and (iii) if the Offer Price is higher than HK$2.86, the Adjusted Value (Sun Ascent Consideration Shares) shall be further adjusted upwards to the Offer Price and Sun Ascent shall pay the shortfall to Apex Wide before the Listing Date; and if the Offer Price is lower than HK$2.86, the Adjusted Value (Sun Ascent Consideration Shares) shall be adjusted downwards and Apex Wide shall return the difference to Sun Ascent before the Listing Date.

The Sun Ascent Balance was paid in full by Sun Ascent on October 29, 2010. Out of the Sun Ascent Balance paid by Sun Ascent, HK$48,000,000 was injected into our Group for paying up the registered capital of Full Win New Material. The remaining portion was retained by Mr. Zhang for his personal use and will not be injected into our Group.

No special right has been granted to Sun Ascent under the Sun Ascent SPA.

Blue Skies

Blue Skies is an investment holding company incorporated in the BVI on February 28, 2008, which is wholly owned by Mr. Suo Lang Duo Ji. Mr. Suo Lang is the chairman, a non-executive director and controlling shareholder of Lumena Resources Corp. (stock code: 67), a company whose shares are listed on the Hong Kong Stock Exchange. Lumena Resources Corp. is principally engaged in the mining, processing and manufacturing of natural thenardite products.

On August 12, 2010, Apex Wide entered into a sale and purchase agreement (the "**Blue Skies SPA**") with Blue Skies, pursuant to which Apex Wide agreed to sell, and Blue Skies agreed to purchase, a certain number of Shares held by Apex Wide (which shall represent 5% of all the issued share capital of our Company as at the date of completion) (the "**Blue Skies Consideration Shares**") at a consideration of HK$70,000,000, determined after arm's length negotiation between the parties, on and subject to the terms and conditions set out in the Blue Skies SPA. Upon full settlement of the consideration of HK$70,000,000 by Blue Skies on August 12, 2010, five (5) Shares representing 5% of the then issued share capital of our Company was transferred to Blue Skies from Apex Wide.

According to the Blue Skies SPA, in the event that the Global Offering fails to take place within 2 years after August 12, 2010, Apex Wide shall redeem the Blue Skies Consideration Shares on the 2nd anniversary of the date of the Blue Skies SPA (i.e. August 12, 2012) at the redemption amount determined by the following formula:

Redemption amount = HK$70,000,000 x 110% x 110%

Save for the aforesaid redemption right, no other special right has been granted to Blue Skies and such redemption right was subsequently terminated pursuant to the Blue Skies Deed (as defined below).

Out of the total consideration of HK$70,000,000 paid by Blue Skies pursuant to the Blue Skies SPA, HK$45.6 million was injected into our Group by way of shareholder's loan as to HK$2.3 million to Mint World for administrative and listing expenses, and HK$43.3 million for paying up the registered capital of Dongying Shengli. The remaining HK$24.4 million out of the total consideration was retained by Mr. Zhang for his personal use.

On October 29, 2010, Apex Wide entered into a deed (the "**Blue Skies Deed**") with Blue Skies, pursuant to which the parties thereto agreed that (i) the Blue Skies Consideration Shares shall be revaluated according to the highest end of the then preliminary indicative offer price range (being HK$2.86) and the consideration therefor shall be adjusted upwards from HK$70,000,000 to HK$125,482,500 (the "**Adjusted Value (Blue Skies Consideration Shares)**"); (ii) Blue Skies shall pay to Apex Wide the difference between the Adjusted Value (Blue Skies Consideration Shares) and the paid consideration under the Blue Skies SPA (the "**Blue Skies Balance**"), being HK$55,482,500 on or before the date of the Blue Skies Deed; and (iii) if the Offer Price is higher than HK$2.86, the Adjusted Value (Blue Skies Consideration Shares) shall be further adjusted upwards to the Offer Price and Blue Skies shall pay any shortfall to Apex Wide before the Listing Date; and if the Offer Price is lower than HK$2.86, the Adjusted Value (Blue Skies Consideration Shares) shall be adjusted downwards and Apex Wide shall return the difference to Blue Skies before the Listing Date.

The Blue Skies Balance was paid in full by Blue Skies on October 29, 2010. The Blue Skies Balance paid by Blue Skies was retained by Mr. Zhang for his personal use and will not be injected into our Group.

In addition, pursuant to the Blue Skies Deed, Blue Skies agreed to give up its redemption right under the Blue Skies SPA with effect from the date thereof.

Additional information on the pre-IPO investments

To the best of the knowledge of our Directors, Mr. Zhang became acquainted with IAM at an occasion in or around July 2009, and became acquainted with CCAM through the referral of Exit Investor 1. Mr. Zhang became acquainted with Sun Ascent through several promotion conferences organized by the government of Zibo city and thereafter, Mr. Qin Kebo (the sole beneficial owner of Sun Ascent) introduced CIG and China Angel to Mr. Zhang. On the other hand, Mr. Zhang became acquainted with Blue Skies by the referral of an Independent Third Party. Save as disclosed in this paragraph headed

"Pre-IPO Investors", as at the Latest Practicable Date, none of the Pre-IPO Investors have any other relationship with our Group, our Shareholders, our Directors, our senior management, any of their respective associates, or any relationship among themselves.

To the best of the knowledge of our Directors, the Pre-IPO Investors mainly took into account the following circumstances when considering their respective investment into our Group: (i) the potential and prospects of our existing business in the manufacture and sale of BDO and our intended business venture into the manufacture and sale of PBS and PBS copolymers; and (ii) the experience of our management in the chemical industry and our track record in related business developments.

The following table sets forth the initial investment cost per Share of each of the Pre-IPO Investors:

	Investment amount *(HK$)*	**Number of Shares held upon Listing**	**Investment cost per Share** *(HK$)*	**Discount from mid-point of the Offer Price Range**
IAM	120,000,000	122,850,000	0.98	65.4%
CCAM	80,000,000	70,200,000	1.14	59.7%
CIG	75,000,000	52,650,000	1.42	49.8%
China Angel	50,000,000	35,100,000	1.42	49.8%
Sun Ascent	To be determined	78,975,000	At Offer Price	N/A
Blue Skies	To be determined	43,875,000	At Offer Price	N/A
		403,650,000		

All Shares held by the Pre-IPO Investors shall be subject to a lock-up period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date. As IAM will be a substantial Shareholder and accordingly a connected person of our Company for the purpose of the Listing Rules, the Shares to be held by it will not form part of the public float after Listing. Additionally, as Sun Ascent is an associate of Mr. Qin Kebo (a non-executive Director) and accordingly a connected person for the purpose of the Listing Rules, the Shares held by it will not form part of the public float after Listing. All Shares held/to be held by the remaining Pre-IPO Investors, namely CCAM, CIG, China Angel and Blue Skies, will be counted towards the public float after Listing.

DISCONTINUED PRE-IPO INVESTMENT

Mr. Zhang, our Controlling Shareholder, was introduced to the Previous Potential Investor in 2007. During the period from August to October 2007, a series of agreements (the "**2007 Agreements**") were entered into among the Previous Potential Investor, Mr. Zhang, Full Smart and Dongying Shengli for the purpose of a potential pre-IPO investment into our Group, pursuant to which it was conditionally agreed among the parties that (i) the Previous Potential Investor would, for a consideration of HK$100 million, subscribe for 20% of the issued share capital of Full Smart as enlarged by the subscription (the "**Proposed Subscription**"); and (ii) the shares of Full Smart and the equity interest of Dongying Shengli would be charged or mortgaged to the Previous Potential Investor as security for the Proposed Subscription.

Pursuant to the Proposed Subscription, the Previous Potential Investor advanced a total of HK$50 million (the "**Investment Deposit**") to our Group during the period from August to September 2007 as deposit for the Proposed Subscription pending fulfillment of certain conditions precedent as stipulated in the 2007 Agreements. In November 2007, the charge on the equity interest of Dongying Shengli (the "**Dongying Shengli Charge**") was registered with Dongying AIC with an effective period of one year. However, in or around December 2007, the Previous Potential Investor decided not to proceed with the Proposed Subscription and demanded refund of the Investment Deposit in full with interest. During the period between December 24, 2007 to March 13, 2008, Mr. Zhang and/or our Group refunded a total of HK$34,501,150 to the Previous Potential Investor. According to an affidavit executed by Mr. Zhang on August 13, 2010, a meeting was held between Mr. Zhang and the Previous Potential Investor in March 2008 to discuss about, among other things, payment of the remaining balance of the Investment Deposit and interest. As confirmed by Mr. Zhang, during the meeting, it was verbally agreed that against payment of a balance of HK$24,400,000, the Previous Potential Investor would procure for the release of the charge and/or mortgage over the shares of Full Smart and the equity interest of Dongying Shengli Charge (the "**Verbal Settlement Agreement**"). The agreed balance payment was accordingly effected on the same day of the said meeting, as a result of which a total of HK$58,901,150, comprising the Investment Deposit plus interest, was refunded in full to the Previous Potential Investor.

Subsequently, on November 24, 2008 following expiry of the registration of the Dongying Shengli Charge, Dongying Shengli filed with Dongying AIC for the de-registration of the Dongying Shengli Charge and was accordingly accepted by Dongying AIC. On April 15, 2009, the directors of Full Smart passed a resolution approving the removal of the remarks in the register of members of Full Smart in respect of the charge and/or mortgage over Mr. Zhang's shares of Full Smart. The legal advisers as to Samoa law confirmed that, having regard to the acceptance of evidence by the directors of Full Smart that the Investment Deposit has been repaid, a resolution of directors of Full Smart acknowledging that fact and that there can be no charge over Mr. Zhang's shares of Full Smart should release Mr. Zhang from any obligation over his shares. The Samoa legal advisers further confirmed that as at March 16, 2010, no charge over the shares of Full Smart was registered at the Registry of International Companies of Samoa. Considering that Full Smart is a company incorporated in Samoa and the Samoa legal adviser is a registered law firm duly qualified to practice law in Samoa, our Directors

believe that the Samoa legal adviser is the appropriate professional party to provide its views and confirmations on the abovementioned issues relating to Full Smart. Our Directors confirmed that at all material times up to the Latest Practicable Date, the voting rights and beneficial interests of the subject 20% issued share capital of Full Smart were controlled by Mr. Zhang.

In or about January 2010, the Previous Potential Investor filed an administrative action (the "**PRC Action**") with Shandong Province Dongying City Intermediate People's Court ("**Dongying People's Court**") against Dongying AIC (as defendant) and Dongying Shengli (as third party) for wrongful grant of de-registration of the Dongying Shengli Charge and non-compliance with procedures then in effect, on the basis that the Measures for Equity Interests Pledges Registration with Administration of Industry and Commence (《工商行政管理機關股權出質登記辦法》), which took effect from October 1, 2008, required that registration and/or de-registration of charges of equity interests would require a "registration" procedure instead of a "filing" procedure as previously required. Based on an administrative ruling issued by the Dongying People's Court on April 13, 2010, the Previous Potential Investor voluntarily withdrew the PRC Action on the basis that Dongying AIC agreed with the position of the Previous Potential Investor that the Dongying Shengli Charge was not de-registered as at the date thereof. In light of the above, our Group proceeded to rectify the de-registration of the Dongying Shengli Charge and on September 15, 2010 obtained the Notice of Equity Charge De-registration(the "**De-registration Notice**") issued by Dongying AIC announcing that the Dongying Shengli Charge was officially released as of the same date. Our PRC legal advisers advised that the Dongying Shengli Charge was duly released on September 15, 2010 in compliance with applicable PRC laws and regulations. In order to preempt any regulatory challenges on the transfer of entire equity interest of Dongying from Shengli Full Smart to King General as part of the Reorganisation (the "**1st Dongying Shengli Equity Transfer**") which was completed prior to the issuance of the De-registration Notice, Full Smart and King General re-executed the transfer of the entire equity interest of Dongying Shengli on November 26, 2010 (the "**2nd Dongying Shengli Equity Transfer**"), on the same terms as the 1st Dongying Shengli Equity Transfer. The 2nd Dongying Shengli Equity Transfer was approved by Bureau of Commerce of Dongying City (東營市商務局) and registered with Dongying AIC on November 26 2010. Our PRC legal advisers advised that the 2nd Dongying Shengli Equity Transfer was duly completed in compliance with the applicable PRC laws and regulations and the above non-compliance had been fully rectified.

On February 4, 2010, a writ of summons with an indorsement of claim (the "**Unserved Writ**") was issued from the High Court of Hong Kong against Full Smart, Mr. Zhang and Dongying Shengli (together the "**Alleged Defendants**") for unspecified damages and declaratory relief (the "**HK Action**"). Since its issuance, the Unserved Writ has not been served on any of the Alleged Defendants, nor has the Previous Potential Investor served and/or put forward any statement of claim, whether in draft form or otherwise. The precise basis of the claim is unknown. In view of this, the Alleged Defendants have sought advice from the Counsel who advised, *inter alia*, that (i) it is more likely than not the security interest of the Previous Potential Investor over Mr. Zhang's shares in Full Smart was that of an equitable mortgage; (ii) it is likely that the payment of the sum of HK$58,901,150 (being refund of the Investment Deposit with interest) under the Verbal Settlement Agreement would result in the discharge of the Previous Potential

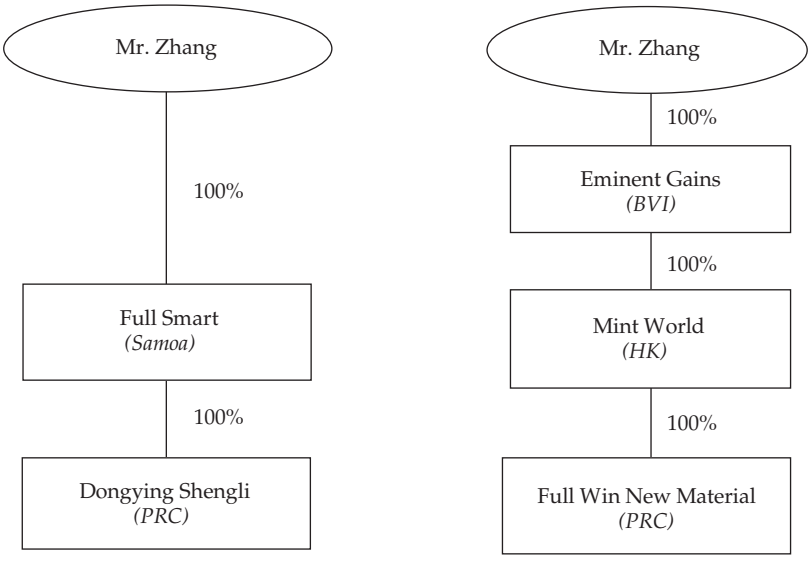
Investor's security interest over the shares of Full Smart; and (iii) since there can be no further underlying basis for the existence of such security when all relevant underlying obligations have been performed, the mere performance of the underlying obligations (that is, the full payments pursuant to the Verbal Settlement Agreement) is sufficient to put an end to the security interest over the shares of Full Smart. The Counsel further advised that the Alleged Defendants have no legal obligation to accede to the jurisdiction of the courts of Hong Kong for the HK Action. Acting out of prudence, the Alleged Defendants have engaged Hong Kong legal advisers including the Counsel to advise and handle the HK Action. Legal documentation for, *inter alia*, compelling the Previous Potential Investor to serve the Unserved Writ and, if the Previous Potential Investor fails to do so, an application for the dismissal of the HK Action have been prepared and are ready to be served if so instructed by the Alleged Defendants. In any event, Mr. Zhang has undertaken to indemnify our Group against all damages, losses, expenses or liabilities which may arise as a result of, relating to or in connection with the HK Action, should the purported claim in the Action become materialized.

For the risks which may arise from the abovementioned discontinued pre-IPO investment by the Previous Potential Investor, please refer to the paragraph headed "Mr. Zhang and certain members of our Group may be subject to potential legal proceeding which, if materializes, may result in a material and adverse impact on the assets and financial results attributable to our Company and our Shareholders." under the section headed "Risk factors" in this prospectus.

CORPORATE STRUCTURE

In anticipation of the Global Offering, we underwent the Reorganization as a result of which our Company became the holding company of other members of our Group, and Mr. Zhang's direct and indirect shareholding interests in each of the companies comprising our Group were held through Apex Wide.

The following was our corporate structure immediately before the Reorganization and the pre-IPO investments (more particulars of which are set out in the paragraph headed "Pre-IPO Investors" in this section):



The Reorganization

On July 20, 2009, Apex Wide was incorporated in the BVI with an authorized share capital of US$50,000 divided into 50,000 shares of US$1 each. On August 10, 2009, Apex Wide allotted and issued one share to Mr. Zhang at par value. Upon completion of the share allotment and issue, Mr. Zhang held the only issued share of Apex Wide.

On August 18, 2009, King General was incorporated as an investment holding company in Hong Kong with an authorized share capital of HK$10,000 divided into 10,000 shares of a nominal value of HK$1 each. On the same date, King General allotted and issued one unpaid share to the initial subscriber.

On August 27, 2009, our Company was incorporated in the Cayman Islands with an authorized share capital of HK$1,000,000 divided into 100,000,000 Shares of HK$0.01 each. On the same date, one nil-paid Share was allotted and issued to Codan Trust Company (Cayman) Limited as subscriber who then transferred the same to Apex Wide at par value on the same date. On April 30, 2010, 99 Shares were allotted and issued to Apex Wide at par value. Upon completion of the said share allotment, issue and transfer, Apex Wide held all the issued Shares.

On September 23, 2009, Full Smart acquired the only issued share of King General from the initial subscriber at par value, after which King General became a wholly-owned subsidiary of Full Smart.

On September 25, 2009, Mr. Zhang transferred his 100 shares of Full Smart to our Company at par value. Upon completion of the share transfer, the entire issued share capital of Full Smart was held by our Company and Dongying Shengli became an indirect wholly owned subsidiary of our Company.

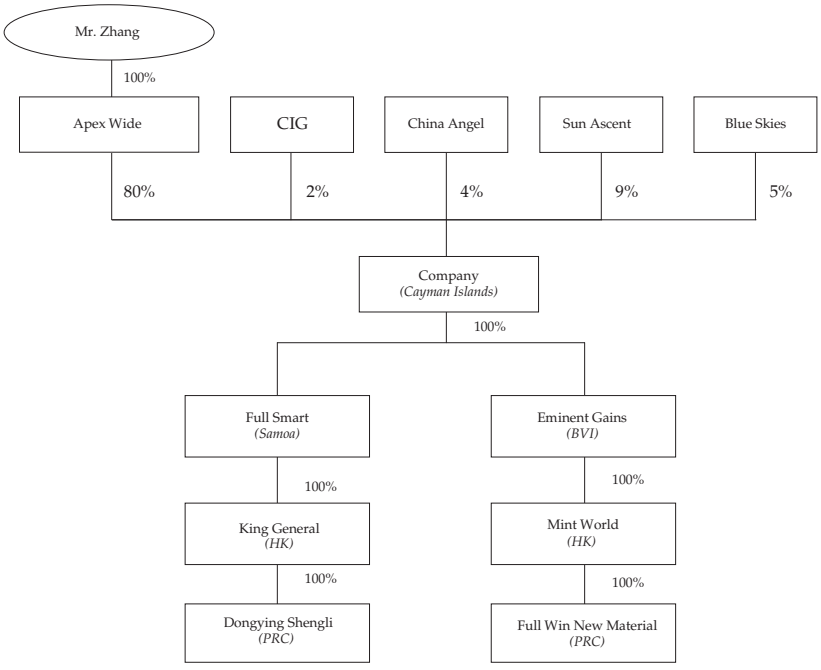
On September 25, 2009, Mr. Zhang transferred his one share of Eminent Gains to our Company at par value. Upon completion of the share transfer, the entire issued share capital of Eminent Gains was held by our Company and Full Win New Material became an indirect wholly owned subsidiary of our Company.

On March 23, 2010, Full Smart entered into an equity transfer agreement to transfer the entire registered capital of Dongying Shengli to King General at a consideration of US$1. The said change of equity owner was approved by the Bureau of Commerce of Dongying City (東營市商務局) on March 25, 2010 and the corresponding revised approval certificate and business licence were issued on March 25, 2010 and April 12, 2010 respectively. However, in or about January 2010, the Previous Potential Investor filed the PRC Action with Dongying People's Court against Dongying AIC for wrongful grant of de-registration and non-compliance with procedures then in effect, on the basis that the National Administration of Industry and Commence Equity Interests Pledges Registration Measures (《國家工商局股權出質登記辦法》) had taken effect on October 1, 2008, pursuant to which registration and/or de-registration of charges of PRC assets would require a "registration" procedure instead of a "filing" procedure as previously required. Based on an administrative ruling issued by the Dongying People's Court on April 13, 2010, the Previous Potential Investor voluntarily withdrew the PRC Action on the basis that

Dongying AIC agreed with the position of the Previous Potential Investor that the Dongying Shengli Charge was not de-registered as at the date thereof. In response to the change of position of Dongying AIC on the de-registration of the Dongying Shengli Charge, the Company proceeded to rectify the de-registration of the Dongying Shengli Charge and on September 15, 2010 obtained the De-registration Notice issued by Dongying AIC announcing that the Dongying Shengli Charge was officially released as of the same date. In order to preempt any regulatory challenges on the 1st Dongying Shengli Equity Transfer which was completed prior to the issue of the De-registration Notice dated September 15, 2010, Full Smart and King General re-executed the 2nd Dongying Shengli Equity Transfer on the same terms as the 1st Dongying Shengli Equity Transfer on November 26, 2010. The 2nd Dongying Shengli Equity Transfer was approved by the Bureau of Commerce of Dongying City (東營市商務局) and registered with Dongying AIC on the same day. Upon completion of the 2nd Dongying Shengli Equity Transfer, King General became the direct holding company of Dongying Shengli and our Company held the entire registered capital of Dongying Shengli through Full Smart and King General.

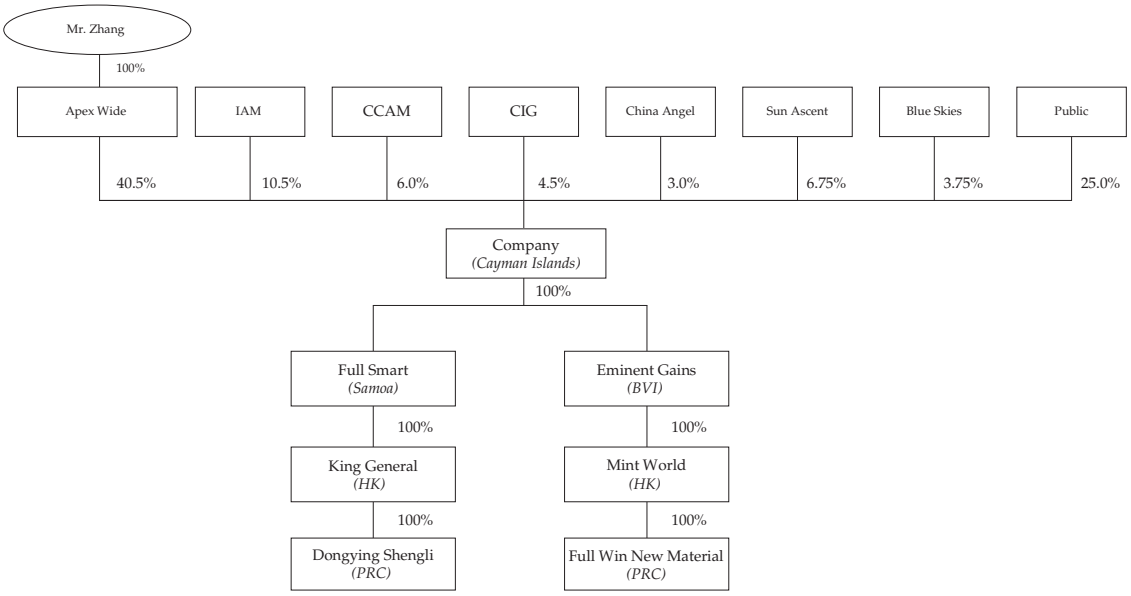
Our PRC legal advisers have confirmed that our Group has obtained all the required approvals from relevant PRC government authorities for the Reorganization, in particular, the approval from the Burean of Commerce of Dongying City (東營市商務局) in respect of the 2nd Dongying Shengli Equity Transfer.

Our corporate structure as at the date of this prospectus was as follows:



Global Offering

Our corporate structure upon completion of the Global Offering, the Capitalization Issue, the exchange of the September 2009 Exchangeable Notes by IAM and the exchange of the November 2009 Exchangeable Notes by CCAM and CIG (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme) shall be as follows:



You should read the whole document before you decide to invest in our Offer Shares, and you should not rely solely on key or summarized information. The financial information in this section has been extracted without material adjustment from "Appendix I – Accountants' report of our Group".

OVERVIEW

We were the second largest BDO producer in China in terms of domestic sales volume in 2009 with a market share of approximately 16.0%, according to the Huajing Report prepared by Beijing Huajing, an independent economic information research institution. We also produce GBL and THF, which are immediate downstream derivative products of BDO. We ranked fifth in China in terms of total designed BDO production capacity in 2009, according to the Huajing Report.

In view of China's growing market for biodegradable materials and leveraging on our existing expertise in BDO production, we intend to expand downstream into BDO-based biodegradable PBS and PBS copolymers production and apply approximately 10% of the net proceeds from the Global Offering to construct the first phase of our PBS production facilities. Please refer to the paragraph headed "Our strategies" under this section for further details. PBS and PBS copolymers are relatively new materials in China and our Group has no historical track record in their production. While we are confident of our PBS expansion plan, there is no assurance that we will be able to produce PBS and PBS copolymers on a commercial scale or at all. (Please refer to the section headed "Risk factors" in this prospectus).

BDO, our primary product, is an essential chemical intermediate used in the production of high performance polymers, solvents and fine chemicals, which are widely used in the automotive, electronics, construction and apparel industries. GBL has a wide range of applications, including cosmetics, hair sprays, germicides, tablet binders and as process aids in beverage clarification. THF is mainly used as a precursor to polymers and is often used to produce PTMEG, which in turn is a reactant for making other polymers.

During the Track Record Period, we sold our BDO, GBL and THF products principally to PRC manufacturers of different industries such as chemicals, pharmaceutical and industrial electronics, which are primarily located in the Eastern region of China. We believe this direct sales model, compared to a distributorship sales model, allows us to obtain first-hand market information directly from these customers and helps us to build long-term and close customer relationships. During the Track Record Period, we did not sell our BDO, GBL and THF products to any manufacturer of PBS or PBS copolymers. Additionally, we have neither directly exported our products nor, to our knowledge, have we sold our products to customers who in turn re-sell and export our products without further processing.

We are the first among the current BDO producers in China to employ the DAVY Process, according to the Huajing Report. The DAVY Process, which uses maleic anhydride as the principal raw material, is more advanced and cost efficient than the traditional REPPE Process, which uses acetylene and formaldehyde as the principal raw

material. The DAVY Process allows us to produce high-graded BDO with a higher purity level than the national standard generally adhered by BDO manufacturers adopting the REPPE Process. The DAVY Process also co-produces GBL and THF, two of our major products, and allows us to adjust the mix among our three products to enhance the flexibility in fulfilling the customers' orders.

Our current production facilities are located in Dongying, Shandong province, close to our raw material suppliers and most of our major customers. In particular, our current production facilities are adjacent to Sinopec Shengli Oilfield Branch Petrochemical Factory* (中國石化勝利油田分公司石油化工總廠) ("**Sinopec Shengli**"), China's second largest oil field complex, which supplies to us raw materials including hydrogen and n-butane through pipelines. Our proximity to and long-term relationship with Sinopec Shengli provide us with a convenient supply of principal raw materials and a cost advantage over many of our foreign and domestic competitors. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, our purchases from Sinopec Shengli accounted for approximately 11.3%, 9.9%, 12.7% and 32.3% of our total purchases, respectively. As at the Latest Practicable Date, our Dongying BDO production facility had a designed BDO production capacity of approximately 35,000 tpa, a designed GBL production capacity of approximately 17,000 tpa and a designed THF production capacity of approximately 5,000 tpa.

We derive substantially all of our revenue from sales of BDO, GBL and THF. Our revenue was approximately RMB882.7 million, RMB883.3 million, RMB745.4 million and RMB383.9 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. Our net profit was approximately RMB146.1 million, RMB133.9 million, RMB172.1 million and RMB96.9 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Our principal business development strategy is to leverage our BDO production capabilities and expand into China's growing biodegradable materials market. Since 2008, we have devoted substantial resources to exploring the market and the commercialization potential of BDO-based biodegradable PBS and PBS copolymer products. PBS and PBS copolymers are fully biodegradable macromolecular polymers that are synthesized from succinic acid/binary acid and BDO through a process of condensation polymerization. Due to the comparatively superior characteristics in mechanical properties, processability and heat resistance over other types of biodegradable polymers, PBS and PBS copolymers can be used in a wide range of applications, such as packaging materials, food containers, mulch film, packaging films, bags, disposable medical devices, hygiene products and textiles. In this connection, we entered into a letter of intent with IPCCAS in July 2009 for the licensing of its patented IPCCAS Direct Polycondensation Process to construct a 20,000 tpa PBS production facility, as well as setting up a joint research laboratory to research into new PBS formulations and potential applications. Subsequently in December 2009, we entered into a formal technology licensing agreement with IPCCAS (which was supplemented by a supplemental licensing agreement dated October 29, 2010), under which we were granted a non-exclusive license (which is one-off in nature with no time limit) to use the relevant PBS resin polymerization technologies in our PBS production facilities and our 500-liter PBS laboratory facility adopting the IPCCAS Direct

Polycondensation Process. In May 2010, we further entered into a technology cooperation agreement with Sichuan University for an initial period of five years to collaborate into areas including (without limitation) PBS downstream product development, production technology support and research staff training. Since then, we have established a PBS research team in Zibo of Shandong province collaborating with IPCCAS and the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University. We are close to completing the construction of a 500-liter PBS laboratory facility which would be used for testing formulations for and trial production of various types of PBS and PBS copolymer downstream products. The PBS laboratory facility is scheduled to be completed by end of November 2010 and put into operation by December 2010.

In accordance with our expansion plan, we have already commenced the construction of a new production base, which is situated on a parcel of land with a site area of approximately 229,655 square meters in the New-Hi Tech Industrial Development Zone of Zibo, Shandong province. To this end, construction of two PBS production lines in this new Zibo production base with designed production capacity of 5,000 tpa and 20,000 tpa, being the first phase of our three-phase PBS production capacity expansion plan, is currently under way and is scheduled to be completed by June 2011 and September 2011, respectively. As at the Latest Practicable Date, we had entered into non-legally binding letters of intent, valid up to December 31, 2013, with several Independent Third Party PRC manufacturers of medical supplies, packaging and hygienic disposables for intended PBS and PBS copolymers orders totaling over 17,000 tons per annum.

Depending on the then market response to our PBS and PBS copolymer products from our first phase of PBS production facility, we intend to commence construction of a further 50,000 tpa PBS production facility in or around early 2012. According to our preliminary construction schedule, this 50,000 tpa, second phase PBS production facility shall take about eight months to construct. Depending on the then utilization of our first and second phase of PBS production facilities, we may commence construction of a third phase PBS production facility with a designed production capacity of 50,000 tpa as early as in 2013.

To support our planned expansion into the production of PBS and PBS copolymers which are currently in our product development pipeline, and to serve the growing demand for high-graded BDO and its derivative products in China, we plan to expand our BDO production capacity significantly by constructing a new, 55,000 tpa BDO production facility, to be housed alongside our planned PBS production facilities, in our new Zibo production base. This new BDO production facility, which is under construction and is currently scheduled to be completed by June 2011, will employ the newest, fourth-generation DAVY Process with designed BDO, GBL and THF production capacity of approximately 46,800 tpa, 6,600 tpa and 1,600 tpa, respectively.

In addition to the above core production facilities, our Zibo production base will also house various ancillary facilities such as office buildings, staff canteen, warehouses and a waste water treatment facility.

According to our research and development progress to date, it is estimated that the consumption ratio of BDO in PBS production should be around 0.4-0.5 ton of BDO for each ton of PBS and/or PBS copolymer products. On such basis and for purpose of illustration, if all three phases of our PBS production facilities are operating at full capacity, then based on the currently estimated consumption ratio of BDO to PBS, around half of the aggregate designed production capacity of our two BDO production facilities (inclusive of BDO, GBL and THF) will be utilized for producing internally consumed BDO, while the remaining production capacity will be utilized for producing BDO, GBL and THF for external sales to the market. We believe that our expanded BDO production capacity will help to support the future growth of our PBS and PBS copolymer production and solidify our leading position in China's BDO and derivative products market.

OUR COMPETITIVE STRENGTHS

We attribute our success to date and potential for future growth to the following competitive strengths:

The second largest producer of high-purity BDO in China

We were the second largest BDO producer in China in terms of domestic sales volume in 2009 with a market share of approximately 16.0%, according to the Huajing Report prepared by Beijing Huajing, an independent economic information research institution. As at the Latest Practicable Date, our existing BDO production facility had a designed BDO production capacity of approximately 35,000 tpa, a designed GBL production capacity of approximately 17,000 tpa and a designed THF production capacity of approximately 5,000 tpa. Industrial production of BDO is a complex process, and we believe it is difficult to produce high-purity BDO in large volume with consistent quality. Our BDO has a higher purity level than the national standard. We believe we are one of the largest BDO producers that can attain this purity level in large volume based on the Huajing Report. Our large-scale production also helps us to control costs and secure reliable raw material supplies by allowing us to negotiate and enter into advantageous pricing terms with our suppliers.

The large-scale production of high-purity BDO requires significant technological expertise and know-how, posing high barriers of entry to potential competitors. With the planned expansion of our BDO production capacity in the near term, we hope to continue to take advantage of being a BDO market leader in China.

First among current BDO producers in China to employ the DAVY Process

We are the first among the current BDO producers in China to employ the DAVY Process, according to the Huajing Report. The DAVY Process is considered more advanced and cost efficient than the traditional REPPE Process, which to date is still widely used among China's BDO manufacturers. Other advantages of the DAVY Process over the REPPE Process include: (i) cheaper and more readily available principal feedstock (maleic anhydride); (ii) the BDO produced is capable

of achieving a higher purity level than that generally adhered by BDO manufacturers adopting the REPPE Process; (iii) ability to co-produce GBL and THF with adjustable output ratio among BDO, GBL and THF; (iv) lower initial capital investment in production facilities; and (v) lesser amount of waste by-products, thus lowering the costs of waste disposal and environmental compliance. For a brief description of the various BDO production technologies, see paragraph headed "BDO production technology" under the section headed "Industry overview" in this prospectus.

As part of our expansion plan, we are constructing a new, 55,000 tpa BDO production facility in our Zibo production base adopting the newest, fourth-generation DAVY Process. While we are aware that a few of our competitors have recently migrated to or constructed new BDO production facilities adopting the same, we believe that our accumulated expertise and know-how in employing the DAVY Process for our BDO production gives us a significant first-mover advantage that will allow us to operate at higher utilization rates and achieve higher product yields than our competitors that are new to the DAVY Process.

Strong customer base and reputation

We have established and maintained long-term and close relationships with our key customers by providing consistent quantity and high quality products to them. Our customer base has been reasonably stable from year to year. Our ten largest customers included seven of the same companies for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010.

Our customers typically demand a challenging combination of high quality and stable supply of BDO. Our ability to supply our products quickly, with consistent quantity and high quality enhances our market reputation and builds customer loyalty.

Stable and low-cost supply of high quality raw materials and other materials

Purchases of raw materials account for a significant component of our cost of goods sold. We spent approximately RMB592.0 million, RMB593.5 million, RMB372.3 million and RMB220.1 million on raw materials for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively, accounting for approximately 85.1%, 85.3%, 76.6% and 88.4% of our cost of goods sold for those periods. Maleic anhydride, hydrogen and methanol are the principal raw materials for the production of BDO using the DAVY Process, while n-butane is the principal feedstock for the production of maleic anhydride. These materials are available from sources in Shandong and nearby provinces close to our production facilities. For instance, three of our six suppliers of maleic anhydride are located in Zibo, Shandong province, while the other three are in Hebei province and Tianjin. In December 2009, we commenced in-house production of n-butane-based maleic anhydride, which lessened our reliance on third party purchases. From January 2010 to May 2010, approximately 31.4% of the maleic anhydride used in our BDO production was produced internally. We purchase

hydrogen and, more recently, n-butane, from Sinopec Shengli, which is located next to our Dongying production facilities and delivers these materials to our production facilities through pipelines. The geographic proximity of our production facilities to our major suppliers lowers transportation costs and reduces delivery time. We believe that our market leader status allows us to secure stable and high-quality raw materials on favorable terms from selected suppliers.

Proven operational efficiency

We have historically operated at high utilization rates. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, the utilization rates for our BDO production facility was 83.3%, 100.5%, 99.8% and 100.9%, respectively.

We are able to achieve high utilization rates in part because, as the first among the current BDO producers in China to adopt the DAVY Process, we possess the most experience operating it, which has been proven to be highly efficient. In addition, we have conducted production process enhancements and installed additional equipment to our BDO production facility to lower our production process bottleneck and minimize production down time for maintenance. SINOPEC Fushun Research Institute of Petroleum and Petrochemicals* (中國石油化工有限公司撫順石油化工開發研究院) ("**FRIPP**") and Institute of Coal Chemistry of the Chinese Academy of Sciences (中國科學院山西煤炭化學研究所) ("**ICCCAS**"), being China's leading research institutions in the petrochemical industry, have from time to time collaborated with us and provided technical support and updates on industrial development for us to improve our production process and optimize our operational efficiency. We also collaborated with FRIPP to develop an esterification catalyst for use in our BDO production facility in order to lower our production costs.

Experienced management team and employees

Our growth is attributable, to a large extent, to our experienced management team and employees. Our executive officers, Mr. Zhang, Mr. Lu Wei, Mr. Zhang Xueqing and Dr. Zhang Aimin, have over 15 years of experience in the chemical industry. Members of our management team, particularly our Chairman, Mr. Zhang, and our executive Director, Mr. Lu Wei, have extensive and in-depth experience in the commercial, technical, managerial and regulatory areas of our business. In preparation of our planned business expansion, we have also employed Dr. Zhang Aimin since November 2009 as our chief technical officer to assist us in implementing our PBS production technology and development of PBS and PBS copolymer products. Dr. Zhang is a professor and doctoral member of the Polymer Research Institute* (高分子研究所) of the Sichuan University and is also a stationed member of the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University. Our management's experience, along with their proven execution capabilities and managerial skills, has contributed to our focused marketing efforts, superior quality control, efficient production planning and stringent cost controls. In addition, we have a team of employees

skilled in maintaining and operating our production facilities and infrastructure. We will continue to rely on our management team and key employees to successfully implement our business strategies.

OUR STRATEGIES

We aim to further strengthen our leading market position in the BDO industry. Additionally, by leveraging on our expertise in BDO production, we aim to become a leader in China's biodegradable materials market through downstream expansion into BDO-based biodegradable PBS and PBS copolymer products, and aim to become a regional leader in PBS and PBS copolymer production. To achieve these goals, we intend to pursue the following strategies:

Downstream expansion into PBS and PBS copolymer production

According to Freedonia, demand for PBS and PBS copolymers in China is forecasted to experience significant growth, with a CAGR of approximately 56.2% from 5,050 tons to 47,000 tons between 2009 and 2014. In view of China's growing market for biodegradable materials and our existing expertise in BDO production by the DAVY Process, we intend to expand downstream into PBS and PBS copolymers production. We have entered into a technology licensing agreement with IPCCAS in December 2009 (as supplemented by a supplemental agreement dated October 29, 2010), under which we were granted a non-exclusive license to use the relevant PBS resin polymerization technologies in our PBS production facilities and our 500-liter PBS laboratory facility adopting the IPCCAS Direct Polycondensation Process. We are close to completing the construction of a 500-liter PBS laboratory facility which would be used for testing formulations for and trial production of various types of PBS and PBS copolymer downstream products. The PBS laboratory facility is scheduled to be completed by end of November 2010 and put into operation by December 2010. To this end, construction of two PBS production capacity of 5,000 tpa and 20,000 tpa, being the first phase of our three-phase PBS production capacity expansion plan, is currently under way and is scheduled to be completed by June 2011 and September 2011, respectively.

In the longer run, we intend to further expand our PBS production capacity by an aggregate of 100,000 tpa through the construction of two additional PBS production lines, each with a designed production capacity of 50,000 tpa, under two additional phases. We currently intend to commence construction of the first 50,000 tpa PBS production facility in or around early 2012 depending on the then market response to our PBS and PBS copolymer products from our first phase of PBS production facilities. According to our preliminary construction schedule, this 50,000 tpa second-phase PBS production facility shall take about eight months to construct. Depending on the then utilization rates of our first and second phases of PBS production facilities, we may commence construction of a third phase PBS production facility with a designed production capacity of 50,000 tpa as early as 2013. These three phases of PBS production facilities will all be housed alongside our new BDO production facility (to be further elaborated below) in our new Zibo production base.

Our Directors believe that as the gross profit margin of both PBS and PBS copolymers are expected to be higher than those of our existing products (namely BDO, GBL and THF), the change of our sales mix as a result of the commercial production and sales of PBS and PBS copolymers in the near future is expected to enhance our overall gross profit margin. Additionally, as our near-term targeted PBS and PBS copolymer customers are different from our existing customers, the introduction of PBS and PBS copolymers is also expected to broaden our overall customer-base.

Our Directors are confident that given our Group's solid foundation as a BDO manufacturer using the DAVY Process, a competitive advantage in terms of securing the principal raw material for the production of PBS and PBS copolymers; its collaborative relationship with IPCCAS, the patent holder of the IPCCAS Direct Polycondensation Process to be adopted by us; our ability to tap onto the expertise of the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University through our chief technical officer, Dr. Zhang Aimin, and our collaborative relationship with Sichuan University, our Group is well posed to become an early mover in China's PBS and PBS copolymers market.

Expand our designed BDO production capacity

The market for BDO and its derivative products in China has grown significantly in recent years. According to the Huajing Report, the demand for and production of BDO in China in 2005 was approximately 141,000 tons and 56,000 tons, respectively. In 2009, the demand for and production of BDO in China were approximately 252,000 tons and 231,000 tons, implying a CAGR of 15.6% and 42.5%, respectively. We believe the market for BDO and its derivative products in China will continue to grow because of growing industrialization, growing per capita disposable income, increasing spending on pharmaceuticals and consumer products, and increasing awareness of the importance of environmental protection. The increased awareness of environmental protection will, in particular, spur demand for biodegradable plastic materials, which we believe will in turn increase significant demand for PBS and PBS copolymers. As we commence and gradually increase our production of PBS and PBS copolymers, we will require increasing amounts of BDO as raw material.

To support our planned expansion into the production of PBS and PBS copolymers and serve the growing demand for high-graded BDO and BDO derivative products in China, we plan to expand our BDO production capacity significantly by constructing a new, 55,000 tpa BDO production facility, to be housed alongside our planned PBS production facilities, in our new Zibo production base. This new BDO production facility, which is under construction and currently scheduled to be completed by June 2011, will employ the newest, fourth-generation DAVY Process with designed BDO, GBL and THF production capacity of approximately 46,800 tpa, 6,600 tpa and 1,600 tpa, respectively.

We believe that our expanded BDO production capacity would enable us to enjoy greater flexibility in adjusting our production and sales mix to meet market demands, while controlling our costs through internal BDO consumption and external BDO sales. It is our intention that upon commencement of our PBS and PBS copolymers production, we will prioritize the use of our BDO produced by first satisfying our internal production requirement of PBS and PBS copolymers. According to our research and development progress to date, it is estimated that the consumption ratio of BDO in PBS production should be around 0.4-0.5 ton of BDO for each ton of PBS and/or PBS copolymers. On such basis, depending on the then prevailing demand for our PBS and PBS copolymer products, we expect our internal BDO consumption will increase as a percentage of our total BDO production as we expand our PBS production capacity in accordance with our expansion plan. (For purpose of illustration, if all three phases of our PBS production facilities are operating at full capacity, then based on the currently estimated consumption ratio of BDO to PBS, around half of the aggregate designed production capacity of our two BDO production facilities (inclusive of BDO, GBL and THF) will be utilized for producing internally-consumed BDO, while the remaining production capacity will be utilized for producing BDO, GBL and THF for external sales to the market.) We also expect our revenue from PBS and PBS copolymer products will increase both in absolute terms and as a percentage of our total revenue in the future when our PBS expansion plan is successfully implemented.

We believe that our expanded BDO production capacity will help to support the future growth of our PBS and PBS copolymer production and at the same time solidify our leading position in China's BDO and derivative products market.

Collaborations with research institutes to develop formulations of PBS and PBS copolymers

According to industry researches, PBS can be combined with other resins and biodegradable raw materials to arrive at different formulations with specific characteristics that are desirable for production of different end products. As production and application of PBS and PBS copolymers are still at an early stage of development, our Directors believe that there are substantial potential in developing different formulations of PBS and PBS copolymers tailored for specific requirements for different end uses. Alongside our planned expansion into PBS and PBS copolymer production which was under way as at the Latest Practicable Date, it is our intention to tap onto the research capabilities of reputable research and academic institutes in China through collaborative arrangements to develop different PBS and PBS copolymer formulations to promote wider commercial applications and market acceptance of PBS and PBS copolymers.

In this connection, we have entered into a letter of intent with IPCCAS on July 27, 2009 which set out, among other things, the intention of the parties to collaborate into the research of new PBS formulations and potential applications. Further, in May 2010, we have entered into a technology cooperation agreement with Sichuan University for an initial period of five years commencing on May 10, 2010 to collaborate into areas including (without limitation) PBS downstream product development, production technology support and research staff training.

As at the Latest Practicable Date, we had established a PBS research team in Zibo of Shandong province collaborating with IPCCAS and the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University. This PBS research team is led by our chief technical officer, Dr. Zhang Aimin, a professor and doctoral member of the Polymer Research Institute (高分子研究所) and a stationed member of the State Key Laboratory of Polymer Materials Engineering (高分子材料工程國家重點實驗室) of Sichuan University. We are close to completing the construction of a 500-liter PBS laboratory facility which would be used for testing formulations for and trial production of various types of PBS and PBS copolymer downstream products. The PBS laboratory facility is scheduled to be completed by end of November 2010 and put into operation by December 2010.

It is our intention to continue to seek similar collaborations with other reputable research and academic institutes in China specializing in areas of biodegradable materials and polymers to strengthen our PBS and PBS copolymer product development and commercialization capability.

Further improve our production process and efficiency

One of our key advantages has been our ability to operate at high utilization rates. Our production capability helps to reduce our operating costs and increase our overall competitiveness. We intend to continue to cooperate with China's leading research institutions in the petrochemical industry, such as FRIPP and CAS, to further streamline various aspects of our production process and improve our production efficiency. We have been using the esterification catalyst developed under the collaboration between FRIPP and us, which, compared with the imported esterification catalyst, is of comparable quality but at a much lower cost and requires much less delivery time. We will continue to explore and consider alternative production inputs and process refinements that may further improve the efficiency of our production process. We also plan to explore and adopt additional energy-saving measures to improve our production efficiency. We believe that these improvements to our production process will help to further reduce our costs and increase our profitability.

Continue to strengthen our sales and marketing efforts, particularly with regard to PBS and PBS copolymers

We have established and maintained long-term and close relationships with our key customers by providing consistent quantity and high quality products to them. We plan to continue to strengthen our sales and marketing efforts, and our customer service, thus enhancing our market reputation and customers' loyalty. We encourage our sales and marketing personnel to participate in industry conferences and familiarize themselves with industry trends and ongoing research and development of new materials. Before we launch our new product, we research the product and its potential market thoroughly to ensure that it meets our standards of safety, quality and environmental friendliness. We plan to pay close attention to the progress of our customers' expansion plans and adjust our production accordingly so that we are well-positioned to meet the new demands from our customers.

In terms of the development of customer base for PBS and PBS copolymers currently under our product development pipeline, we have formulated a near-term market strategy to focus mainly on customers who have capabilities to use our PBS and PBS copolymers as raw materials and to produce and market the corresponding downstream PBS and PBS copolymer-based end products. We believe this direct sales model, as compared to a distributorship sales model, allows us to obtain first-hand market information directly from these customers and helps us to build long-term and close customer relationships. As at the Latest Practicable Date, we had entered into non-legally binding letters of intent, valid up to December 31, 2013, with several Independent Third Party manufacturers of medical supplies, packaging and hygienic disposables located in the Shandong province, for intended PBS and PBS copolymers orders totaling over 17,000 tons per annum, with selling prices to be fixed by agreement with reference to the then prevailing market prices. To the best knowledge of our Directors, these PRC manufacturers have identified specific targeted PBS applications, such as pre-filled syringes, blood dispensers, single-use liquid dispensers, urine collectors, drug packaging and degradable sanitary napkins. As at the Latest Practicable Date, we have been advised by IPCCAS that they have successfully developed preliminary formulations for various types of PBS downstream products for certain of our potential PBS customers, and has recommended trial production for the relevant industrial applications, which includes PBS/PLA biodegradable disposable syringes and PBS-based film. Taking into consideration the market analyses provided by Freedonia and the aforesaid PBS formulation progress by IPCCAS under our collaborative arrangements on PBS applications to be adopted by our potential PBS customers, we do not foresee any major obstacles on the commercial and technical feasibility of using PBS for these end products.

As and when our direct sales channel becomes more established in the long-term, we may consider expanding our PBS and PBS copolymer customer base to a wider range to cover reputable distributors with well-established distribution networks and channels in the biodegradable materials market of China.

We also plan to market our products by participating in various biodegradable material-related academic conferences and exhibitions, and visiting relevant industry participants.

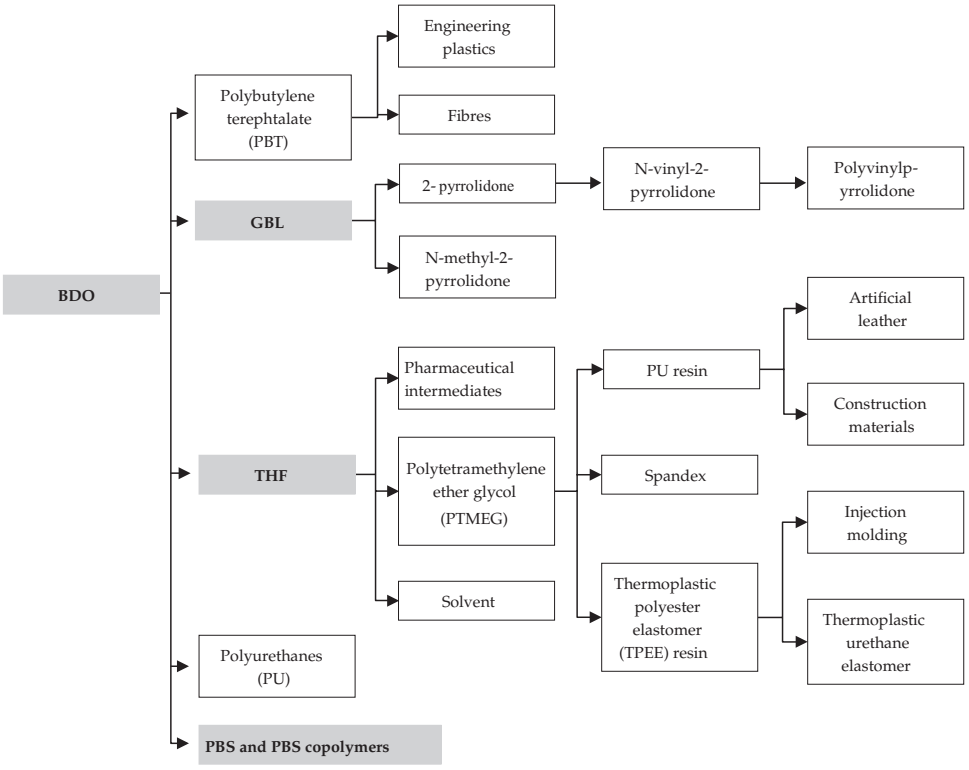
Pursue strategic acquisitions and alliances

We believe that strategic and selective acquisitions of and alliances with complementary businesses can expand our product offerings, broaden our customer base and enhance our technological expertise. We plan to selectively consider acquisitions that would complement our existing production facilities, improve our operational efficiency or strengthen our research and development capabilities. In particular, we may pursue strategic acquisitions of manufacturers of our raw materials to achieve a more integrated manufacturing process and to meet growing demand for raw materials following our production capacity expansion. As at the Latest Practicable Date, we had not yet identified any potential acquisition targets.

OUR PRODUCTS

Current products

We specialize in the production of BDO and its immediate downstream derivative products, GBL and THF. BDO, our primary product, is an essential chemical intermediate used in the production of high performance polymers, solvents and fine chemicals, which are widely used in the automotive, electronics, construction and apparel industries. GBL has a wide range of applications, including cosmetics, hair sprays, germicides, tablet binders and as process aids in beverage clarification. THF is mainly used as a precursor to polymers and is often used to produce PTMEG, which in turn is a reactant for making other polymers. The following chart illustrates the major derivative products of BDO.



BDO

Our principal product is BDO, or 1,4-butanediol, an important basic organic chemical raw material and a feedstock for fine chemicals with wide industrial applications. BDO is a saturated carbon-4 straight-chain dibasic alcohol, having a molecular formula of $C_4H_{10}O_2$. BDO is a colorless, transparent and almost odorless viscous liquid with a freezing point of approximately 20.1°C and a boiling point of approximately 228°C. We produce BDO within a purity level between 99.57% to 99.70%, which is higher than the national standard of 99.5% established by the Organic Branch of National Chemical Standardized Technology Committee (全國化學標準化技術委員會有機分會).

At present, there are four major BDO production methods commonly employed, namely the REPPE Process, the DAVY Process, the butadiene acetoxylation process and the propylene oxide process. While the global BDO industry has been shifting away from the acetylene-based REPPE process to the other three cheaper processes (in terms of costs of principal feedstocks), according to the Huajing Report, over 80% of BDO production capacity in the world is still employing the REPPE Process while most of the newly built BDO production facilities are employing the DAVY Process.

BDO is widely used in the manufacture of solvents such as GBL and THF, our two other major products, which are co-produced with BDO under the DAVY Process. According to the Huajing Report, the immediate downstream product which accounted for the largest consumption of BDO in China is THF. It accounted for approximately 41.2% of total BDO consumption in China in 2009. BDO is also used as a feedstock in the manufacture of polymers such as polybutylene terephtalate (PBT), a plastic that is applied by the auto industry to make under bonnet parts, exterior parts and automotive headlight brackets and by electrical and electronics industries as insulator, and polyurethanes (PU), which is a versatile plastic material and is widely used in making seating foam, insulation foam, sealants, adhesives, spandex fibers and hard plastic parts. In addition, BDO is a principal feedstock in the manufacture of PBS and PBS copolymers, which are fully biodegradable macromolecular polymers synthesized from succinic acid/binary acid and BDO and are currently in our product development pipeline.

For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, revenue derived from our sales of BDO was approximately RMB489.0 million, RMB529.5 million, RMB414.7 million and RMB209.5 million, respectively, representing approximately 55.4%, 59.9%, 55.6% and 54.6% of our total revenue for each respective period.

GBL

We also produce GBL, an immediate downstream product of BDO, as a by-product in our BDO production under the DAVY Process. GBL's chemical name is γ-butyrolactone, and its molecular formula is $C_4H_6O_2$. GBL is a colorless, transparent and oily liquid with a freezing point of approximately -43ºC and a boiling point of approximately 201ºC to 206ºC, with a weak odor and soluble in water. We are able to produce GBL with a purity level up to 99.5%.

GBL has a wide range of applications, including cosmetics, hair sprays, germicides, tablet binders and as process aids in beverage clarification. GBL is used for manufacturing N-methyl-2-pyrrolidone, a dipolar aprotic solvent which is used as intermediary for the synthesis of agrochemicals, pharmaceuticals, textile auxiliaries, plasticizers, stabilizers and specialty inks, and by the electronics industry for printed circuit board manufacturing. It is also used in the manufacture of 2-pyrrolidone, an intermediary product in the manufacture of polyvinylpyrrolidone, which in turn is used in the production of tablet binders, hair fixative preparations, adhesives, coating and inks, photoersist, paper, photography, textiles and fibers applications.

For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, revenue derived from our sales of GBL was approximately RMB240.2 million, RMB244.0 million, RMB221.7 million and RMB112.9 million, respectively, representing approximately 27.2%, 27.6%, 29.7% and 29.4% of our total revenue for each respective period.

THF

THF is also an immediate downstream product of BDO and represents the most popular use for BDO. THF's chemical name is tetrahydrofuran and its molecular formula is C_4H_8O. THF is a colorless, water-miscible (i.e. able to mix and form a homogeneous solution with water) organic liquid with low viscosity at standard temperature and pressure. We produce THF as a by-product of our BDO production under the DAVY Process. Our THF has a higher purity level than the national standard of 99.8% established by the Organic Branch of National Chemical Standardized Technology Committee (全國化學標準化技術委員會有機分會) and a freezing point of no lower than -108.5°C.

THF is mainly used as a precursor to polymers and is often used to produce PTMEG, which in turn is a reactant for making other polymers. PTMEG is used in the manufacture of castable and thermoplastic polyurethanes, thermoplastic polyester elastomers and polyurethane fibers (spandex), which are commonly found in a wide range of industrial and commercial end products from wheels, industrial tires, mining screens, industrial belts, cable jacketing, hot-melt coatings hoses, tank and pipe liners, adhesives and sealants to ski boots, transparent films for laminating, medical tubing, fabric and leather coatings and artificial leather. Due to its broad solvency for both polar and non-polar compounds, THF is used as a solvent in many pharmaceutical syntheses. In addition, THF's high volatility and purity facilitate solvent removal and recovery without leaving residuals in the products.

For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, revenue derived from our sales of THF was approximately RMB153.4 million, RMB109.8 million, RMB108.9 million and RMB61.5 million, respectively, representing approximately 17.4%, 12.5%, 14.7% and 16.0% of our total revenue for each respective period.

Products under development

PBS and PBS copolymers

PBS, or polybutylene succinate, is a fully biodegradable macromolecular polymer synthesized from succinic acid and BDO through a process of condensation polymerization. It has a melting point of 114°C and is in solid form under room temperature. PBS is a relatively new product among the biodegradable polymers in the global market and is in a development stage. As far as we are aware, Japan, South Korea, Western Europe and the U.S. are known to have scaled commercial production capacity of PBS products.

PBS copolymers are fully biodegradable synthetic aliphatic/aromatic copolyesters synthesized from binary acid and BDO through a process of condensation polymerization. They have a melting point between 100°C and 120°C and are in solid form under room temperature.

Due to the comparatively superior characteristics in mechanical properties, processability and heat resistance, PBS and PBS copolymers can be used in a wide range of applications in various industries. The following table illustrates some of the major applications of PBS and PBS copolymers and their corresponding industries:

Industry	**Applications**
Packaging	Garbage bag, plastic bag, label bottle (not for water nor alcohol), foamed cushion, barrier sheet, pharmaceutical and cosmetics products packaging
Agricultural	Composite film, seed breeder, mulch films and pesticide carrier
Greenery	Lawn-planting net and vegetation cover
Fishery	Bait bag, cushioning product, net and fish line
Consumer Products	Handbag, pen, card, diaper, magnetic card and hygiene product
Food	Food and beverage packaging, container and disposable tableware
Medical	Medical container and syringe

In addition to the above applications, PBS copolymers can also be used as additive to improve the compatibility of degradable polymers (such as PLA and PHB) with other materials (such as starch), so that the toughness and processability of the mixed degradable materials will be enhanced. And since PBS copolymers can improve the compatibility of degradable polymers and other materials, the greater the demand for these polymers, the greater the demand will be for PBS copolymers.

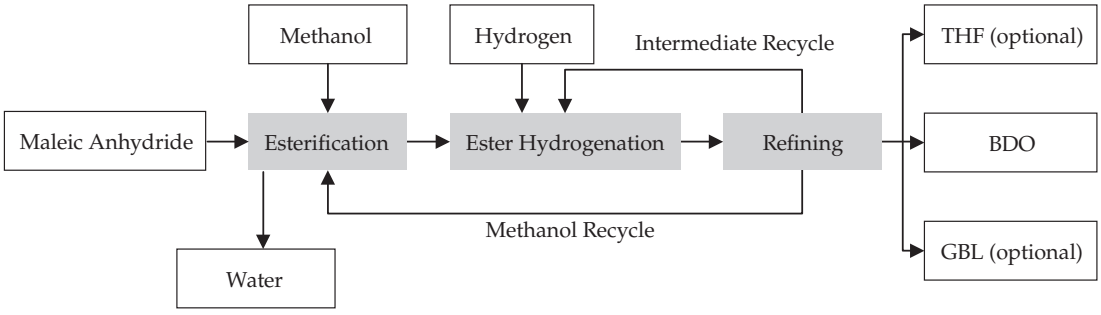
Over the past decade, the Chinese government has promulgated a number of rules and regulations to encourage the use of biodegradable packaging materials, which, along with the general public's increasing awareness of the importance of environmental protection, has contributed to the increasing demand for PBS and PBS copolymers in China. According to Freedonia, total demand for PBS and PBS copolymers in China reached approximately 5,050 tons in 2009.

OUR PRODUCTION PROCESSES

BDO – DAVY Process

At present, there are four major BDO production methods commonly employed, namely the REPPE Process, the DAVY Process, the butadiene acetoxylation process and the propylene oxide process. We are the first among the current BDO producers in China to employ the DAVY Process in producing BDO. The DAVY Process is a patented technology developed by DAVY Process Technology Limited, a UK company which develops and licenses advanced process technologies for oil and gas, petrochemicals, commodity chemicals and fine chemicals. It uses maleic anhydride as feedstock, which can be obtained by the oxidation of butane or benzene. The DAVY Process can produce BDO and two of its derivative products, namely GBL and THF, in adjustable ratios by varying the operating conditions and catalyst exposure. Compared to the traditional REPPE Process which is widely used among China's BDO manufacturers, the DAVY Process is considered more advantageous for reasons including: (i) the DAVY Process uses maleic anhydride as the principal raw material, which is cheaper and more readily available compared to acetylene and formaldehyde, the principal raw material used in the traditional REPPE Process; (ii) with our expertise and know-how, the DAVY Process allows us to produce high-graded BDO with a higher purity level than that generally adhered by BDO manufacturers adopting the REPPE Process; (iii) the DAVY Process is able to co-produce GBL and THF and allows us to adjust the ratio among the BDO, GBL and THF to enhance the flexibility in fulfilling the customers' orders, where such option is not available under the REPPE Process; (iv) the DAVY Process requires lower initial capital investment in production facilities than the REPPE Process; and (v) the DAVY Process is more environmentally friendly, producing lesser amount of waste by-products, and thus lowering the costs of waste disposal and environmental compliance.

The DAVY Process involves mainly three steps, namely esterification, ester hydrogenation and refining:



Source: DAVY Process Technology Limited

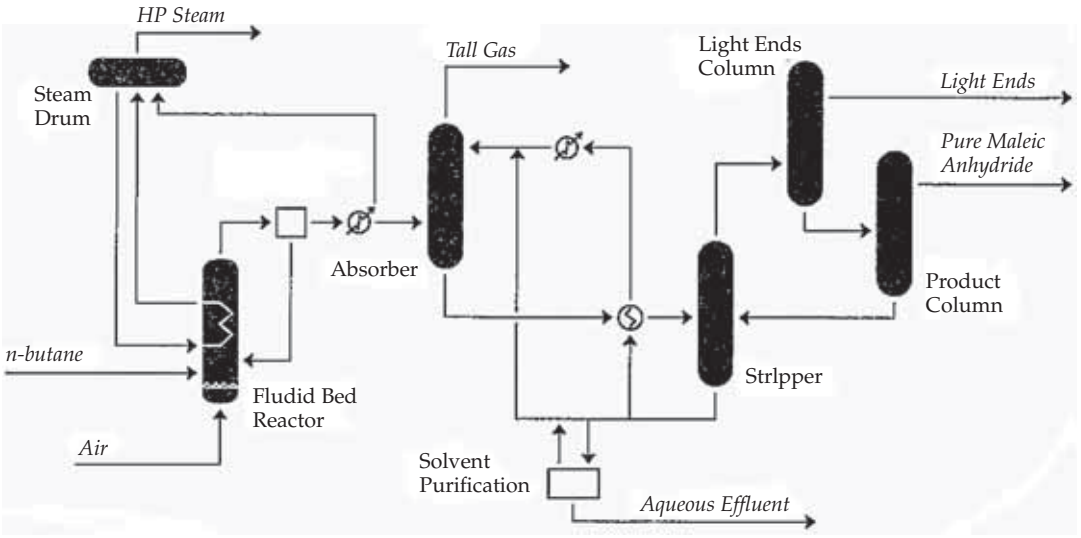
Our existing BDO production facility in Dongying, which was acquired by us from Shandong Shenming, an Independent Third Party, pursuant to an asset transfer agreement dated August 25, 2003, adopts the second-generation DAVY Process. The right to adopt this patented production technology had been granted prior to our acquisition of the production facility in August 2003. The licensing of such right was one-off in nature with no time limit and related principally to constructing the relevant production facility embedding the DAVY Process to produce BDO and its derivative products. DAVY Process Technology Limited confirmed to us that Dongying Shengli has the right to use the DAVY process embedded in our BDO production facility and to carry out technological upgrade and capacity expansion on that production facility when necessary.

In facilitation of the construction of our new 55,000 tpa BDO production facility in our new Zibo production base (which as at the Latest Practicable Date was under construction), we entered into a license agreement on June 14, 2008 with DAVY Process Technology Limited pursuant to which we have been licensed to construct our Zibo BDO production facility and produce BDO and its derivative products employing the fourth-generation DAVY Process, at a consideration determined after arm's length negotiation between the parties. The licensing of such right was one-off in nature with no time limit, and related principally to constructing the relevant production facility embedding the DAVY Process to produce BDO and its derivative products. Compared with the second-generation, the fourth-generation DAVY Process is expected to be more efficient, safer and more environmentally-friendly. It is also expected that the fourth-generation DAVY Process will consume less energy and require smaller amounts of catalysts for producing the same amount of BDO compared with the second-generation DAVY Process. In addition, the fourth-generation DAVY Process is expected to be able to produce BDO with a purity level of 99.8%.

Maleic Anhydride – ALMA Process

Maleic anhydride is the principal raw material used in BDO production. It can be produced either from benzene or n-butane. Compared to benzene-based maleic anhydride, maleic anhydride produced using n-butane has a higher purity and lower sulfur content. During the Track Record Period and up to the Latest Practicable Date, we purchased benzene-based maleic anhydride from independent suppliers. In December 2009, we commenced in-house production of n-butane based maleic anhydride under the maleic anhydride production facility which we acquired from an Independent Third Party in August 2007. This maleic anhydride production facility is located in Dongying, Shandong province adjacent to our Dongying BDO production facility and employs the ALMA Process for the production of n-butane based maleic anhydride. The ALMA Process is a proprietary process jointly developed by ABB Lummus Crest Inc. (now Lummus Technology under Chicago Bridge and Iron Company NV, a global specialty engineering and construction company) and Alusuisse Italia SpA (a subsidiary of Alusuisse Group AG, a Switzerland company that was acquired by Alcan Inc. (now Rinto Tinto Alcan Inc.) in 2000).

The following flowchart highlights the production process of maleic anhydride under the ALMA Process:



Under the ALMA Process, the n-butane and air are fed separately into a fluid-bed catalytic reactor to produce maleic anhydride. The exothermic heat of reaction is removed by generating high pressure steam. After cyclone separation of the elutriated solids, the reactor effluent is cooled, filtered and fed to the absorber. In the absorber, a proprietary, patented solvent is used to selectively remove maleic anhydride from the cooled reactor effluent. The off gas is exhausted to an incinerator for recovery of its heating value. The bottoms are fed to the stripper where crude maleic anhydride is separated as distillate from re-circulated solvent.

The crude maleic anhydride is fed to the light ends column where a small quantity of by-product light ends is separated as distillate and is sent to the incinerator. The bottoms are fed to the product column where maleic anhydride product is recovered as distillate and the bottoms are recycled back to the stripper.

A small slipstream of the circulating solvent is purified to remove solvent degradation products in order to prevent the build up of impurities in the solvent recycle loop. The absorber offgas is combined with the light ends column distillate and vacuum system exhausts and fed to the incinerator, where unreacted butanes and reaction by-products (carbon monoxide, acetic and acrylic acids) are combusted. The waste heat is recovered as high pressure steam, which is combined with the steam from the reactor and superheated. A portion of this steam can be used to drive the air compressor, with the excess exported or used to generate electric power.

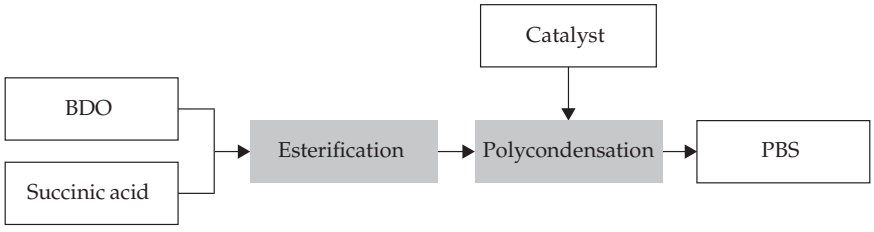
The right to adopt the patented ALMA Process in our maleic anhydride production facility, which was acquired by us from Shandong Jiatai, a then 97.56% owned subsidiary of Shandong Shengming and Independent Third Party, pursuant to an asset transfer agreement dated December 29, 2006, had been granted prior to our acquisition and taking over of the production facility in August 2007. The licensing of such right was one-off in nature with no time limit and related principally to constructing the relevant production

facility embedding the ALMA Process to produce maleic anhydride. ABB Lummus confirmed to us that Dongying Shengli is entitled to use and continue to use the technical information and patent rights relating to the utilization of the ALMA Process embedded in our maleic anhydride production facility.

Production Process of PBS and PBS Copolymers

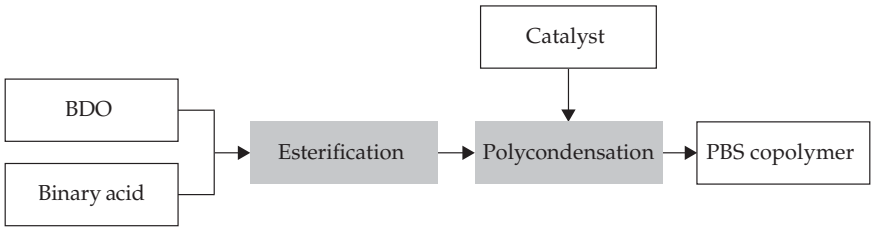
To the best of our Directors' knowledge, high molecular weight PBS is generally produced from BDO and succinic acid (丁二酸) in the presence of catalyst through one of the two production methods: the chain extension process (擴鏈法) or the direct polycondensation process (一步法). Our PBS production facilities will adopt the IPCCAS Direct Polycondensation Process we licensed from IPCCAS. IPCCAS is established under CAS and is a conferring authority for Masters and Doctoral degrees in the fields of organic chemistry, inorganic chemistry, physical chemistry, condensed state physics, refrigeration and cryogenic engineering. Its key research areas include optical functional materials and devices, new technologies of cryogenic engineering, new synthesis technologies for green chemistry, and energy materials and new technologies. We initially engaged IPCCAS to investigate into the feasibility of constructing a 20,000 tpa PBS production facility adopting its patented IPCCAS Direct Polycondensation Process in 2008. In July 2009, we entered into a letter of intent with IPCCAS for the licensing of this patented process to construct a 20,000 tpa PBS production facility, as well as setting up a joint research laboratory to research into new PBS formulations and potential applications. Subsequently in December 2009, we entered into a formal technology licensing agreement with IPCCAS (which was supplemented by a supplemental agreement dated October 29, 2010), under which we were granted a non-exclusive license to use the relevant PBS resin polymerization technologies in our PBS production facilities and our 500-liter PBS laboratory facility adopting the IPCCAS Direct Polycondensation Process, at a consideration determined after arm's length negotiation between the parties. The licencing of such right was one-off in nature with no time limit.

The following chart summarizes the production process of PBS using the IPCCAS Direct Polycondensation Process:



The production process of PBS copolymers intended to be adopted by us is similar to the IPCCAS Direct Polycondensation Process. PBS copolymers are produced directly from the polycondensation of BDO with different kind of binary acid using a high-efficiency catalyst for polymerization.

The following chart sets out the production process of PBS copolymers intended to be adopted by us:



PRODUCTION FACILITIES

Our Existing BDO Facility

Our existing production facility is located in Dongying, Shandong province and adjacent to Sinopec Shengli, China's second largest oil field complex, which supplies to us raw materials including hydrogen and n-butane. Our existing BDO facility is situated on a parcel of land with a site area of 47,856.50 square meters, which we leased from Shengli Petroleum Administration Land Management Division (勝利石油管理局土地管理處) for a term from December 10, 2009 to December 10, 2024 for an annual rental payment of RMB150,748.

Our existing BDO production facility adopts the second-generation DAVY Process. The DAVY Process allows us to produce BDO, GBL and THF in varying ratios by varying the operating conditions and catalyst exposure. The following table sets forth our designed production capacity[(1)] of BDO, GBL and THF for the periods indicated, together with the respective utilization rate:

	Year ended December 31,						Five months ended	
	2007		2008		2009		May 31, 2010	
	Designed production capacity (tons)	*Utilization rate (%)*	*Designed production capacity (tons)*	*Utilization rate (%)*	*Designed production capacity (tons)*	*Utilization rate (%)*	*Designed production capacity [(3)] (tons)*	*Utilization rate (%)*
BDO	35,000	83.3	35,000	100.5[(2)]	35,000	99.8	14,479	100.9%
GBL	17,000	72.3	17,000	87.7	17,000	92.6	7,033	100.3%
THF	5,000	132.1[(2)]	5,000	108.9[(2)]	5,000	134.0[(2)]	2,068	167.3%

Notes:

(1) calculated on the basis that our production facility is operating for 300 days per year.

(2) the utilization rate of our production facility was over 100% mainly because (i) we utilized our production facility more than 300 days per year and (ii) we varied the operating condition in order to adjust the mix among BDO, GBL and THF; in order to meet customer orders.

(3) calculated on a pro-rata basis making reference to the annual designed production capacity.

Our Maleic Anhydride Production Facility

Our maleic anhydride production facility is located in Dongying, Shandong province. It is situated on a parcel of land adjacent to our BDO production facility with a site area of 89,730.87 square meters which we acquired in 2003 together with our BDO production facility.

Our maleic anhydride production facility, which has an initial designed production capacity of approximately 15,000 tpa, was put back into operation in December 2009 to produce n-butane based maleic anhydride for consumption in our BDO production. Since taking over the maleic anhydride production facility in August 2007 and up to September 2009, we commissioned a number of process enhancements and equipment upgrades, including replacements and additions of imported equipment, to improve production safety and enhance output efficiency of the production facility. As a result, from January to May 2010, our maleic anhydride production facility had manufactured a total of approximately 9,133 tons of maleic anhydride and achieved an average utilization rate of about 146.1% of its initial design production capacity.

Proposed Zibo Expansion

Our new production base is situated on a parcel of land in the New-Hi Tech Industrial Development Zone of Zibo, Shandong Province, with a site area of approximately 229,655 square meters to house our new BDO and PBS production facilities. We acquired this parcel of land from Land and Resources Bureau on July 2, 2010 for a total consideration of approximately RMB92.0 million.

As at the Latest Practicable Date, construction of two PBS production lines with designed production capacity of 5,000 tpa and 20,000 tpa, being the first phase of our three-phase PBS production capacity expansion plan, is currently under way and is scheduled to be completed by June 2011 and September 2011, respectively. Depending on the then market response to our PBS and PBS copolymer products from our first phase of PBS production facility, we intend to commence construction of a further 50,000 tpa PBS production facility in or around early 2012. According to our preliminary construction schedule, this 50,000 tpa, second phase PBS production facility shall take about eight months to construct. Depending on the then utilization of our first and second phase of PBS production facilities, we may commence construction of a third phase PBS production facility with a designed production capacity of 50,000 tpa as early as in 2013. On the other hand, construction of our new 55,000 tpa BDO production facility with a designed BDO, GBL and THF production capacity of 46,800 tpa, 6,600 tpa and 1,700 tpa, respectively has commenced and is currently scheduled to be completed by June 2011. In addition to the above core production facilities, our Zibo production base will also house various ancillary facilities such as office buildings, staff canteen, warehouses and a waste water treatment facility.

On the basis of the information available to us so far (including contracts, agreements and contractor estimates so far provided) and based on due assessments by our senior management, it is currently estimated that total capital expenditure for completion of our Zibo production base (including construction of three phases of the PBS

production facilities and the new BDO production facility and inclusive of technology licensing fees, land use rights and other ancillary construction work) shall amount to approximately RMB1.42 billion (equivalent to approximately HK$1.66 billion), of which approximately RMB274 million (equivalent to approximately HK$321 million) have been incurred as at October 31, 2010 funded by internally generated funds, bank borrowings and funds from pre-IPO investments injected as registered capital. The following table summarizes the development plan and capital expenditure schedule in connection with our Zibo production base:

	Desdigned Production Capacity *(tpa)*	(Expected) commencement time	(Expected) completion time	(Estimated) Capital Expenditure *(RMB million)*	Payments made as at October 31, 2010 *(RMB million)*	Outstanding Capital Expenditure *(RMB million)*
Land site acquisition	N/A	Completed	Completed	93	93	0
Ancillary site work and facilities	N/A	August 2010	–	37	0	37
BDO production facilities (inclusive of any license fee)	55,000	September 2010	June 2011	560	113	447
1st phase PBS production facilities (inclusive of any license fee)	25,000	September 2010	September 2011	130	68	62
Subtotal:				820	274	546
2nd phase PBS production facilities (inclusive of any license fee)	50,000	Early 2012	By end of 2012	300	0	300
3rd phase PBS production facilities (inclusive of any license fee)	50,000	2013 earliest	Depending on time of commencement	300	0	300
Subtotal:				600	0	600
Total:				1,420	274	1,146

We plan to apply approximately HK$635 million (equivalent to approximately RMB543 million) of net proceeds from the Global Offering to finance the outstanding capital expenditure required to complete construction of our new BDO production facility and the first phase of our PBS production facilities. As for the remaining capital expenditure requirements of RMB600 million (equivalent to approximately HK$702 million relating to the construction of our second and third phase of PBS production facilities, it is our current intention to finance it by internal funds, bank borrowings, surplus net proceeds from the Global Offering (if any) and, if necessary, by other form of debt financing and/or equity fund raising (so far as permited under the Listing Rules).

The project design, project size, parameters, construction schedule, budget and other factors relating to our Zibo expansion plan may differ from the descriptions contained in this prospectus. See paragraph headed "Risk factors – Risks relating to our business – Construction of our Zibo production base is subject to various risks and uncertainties" in this prospectus.

RAW MATERIALS, UTILITIES AND SUPPLIERS

Raw materials

Maleic anhydride, methanol and hydrogen are the principal raw materials used in our production of BDO and its derivative products. We also use n-butane as raw material for the production of maleic anhydride, which we commenced producing in-house in December 2009 to support part of our BDO production needs. Each of these raw materials is available from sources in the Shandong province, where our production facilities are located, or in nearby provinces. The geographic proximity of our production facilities to our major suppliers lowers transportation costs and reduces delivery time.

Raw materials represent a significant component of our cost of sales. Our cost of raw materials amounted to approximately RMB592.0 million, RMB593.5 million, RMB372.3 million and RMB220.1 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010 accounting for approximately 85.1%, 85.3%, 76.6% and 88.4%, respectively, of our total cost of sales.

Maleic anhydride

The primary raw material for the production of BDO using the DAVY Process is maleic anhydride. During the three years ended December 31, 2007, 2008 and 2009, the maleic anhydride we required for our operations were readily available from third party suppliers at prevailing market price and principally all of the maleic anhydride used in our BDO production were purchased from third party suppliers. Since we commenced in-house production of maleic anhydride in December 2009, we successfully lessened our reliance on third party purchases. From January 2010 to May 2010, approximately 31.4% of the maleic anhydride used in our BDO production was produced internally. During the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, our cost of maleic anhydride amounted to approximately RMB531.7 million, RMB534.1 million, RMB323.8 million and RMB193.5 million, representing approximately 89.8%, 90.0%, 87.0% and 87.9% of our total cost of raw materials, respectively. During the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, our average purchase price per ton of maleic anhydride was about RMB9,367, RMB8,292, RMB4,811 and RMB6,759, respectively. As the international oil prices have increased recently, the cost of maleic anhydride is expected to increase accordingly.

Methanol

Methanol is used as a raw material for BDO production. As a basic petrochemical material, methanol is readily available in the Shandong province. During the Track Record Period, we purchased all of our methanol supply from third party suppliers, and our average purchase price per ton of methanol was approximately RMB2,517, RMB2,874, RMB1,900 and RMB2,138, for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Hydrogen

Hydrogen is an essential raw material for BDO production. During the Track Record Period, our hydrogen was principally supplied by Sinopec Shengli. Sinopec Shengli is located adjacent to our Dongying production facility and delivers hydrogen to us via a pipeline, which represents a significant advantage to us as hydrogen is highly flammable, difficult to transport by road and costly to store in large quantities. Our average purchase price per ton of hydrogen was approximately RMB15,000, RMB15,000, RMB14,000 and RMB15,000, for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

As a supply backup, we also have our own hydrogen production facility in our Dongying production base, which uses methanol to produce hydrogen.

N-butane

N-butane is used as raw material for our in-house production of maleic anhydride. We purchase n-butane also from Sinopec Shengli, which delivers n-butane to our production facility plant through pipelines. From January to May 2010, our average purchase price of n-butane was approximately RMB4,444 per ton.

Other materials, and utilities used in the production

Catalysts

Catalysts are required for all of our principal production processes, namely the DAVY Process for BDO, GBL and THF, the ALMA Process for maleic anhydride and the IPCCAS Direct Polycondensation Process for PBS and PBS copolymers.

We primarily use two kinds of catalysts in our DAVY production process, an esterification catalyst and a hydrogenation catalyst, both of which are purchased from third parties. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, our average purchase price of esterification catalysts per cubic meter was approximately RMB129,000, RMB135,000, RMB135,000 and RMB135,000, respectively, while our average purchase price of hydrogenation catalyst per ton was approximately RMB274,000, RMB281,000, RMB281,000 and 281,000 respectively.

We also use a specific catalyst purchased from third parties for our production of maleic anhydride, which we commenced in December 2009. We purchased 3.8 tons of specific catalyst in December 2009 and our average purchase price of this specific catalyst was approximately RMB427,000 per ton. We had not purchased any additional catalyst during the five months ended May 31, 2010.

Upon commencement of our PBS and PBS copolymer production, we intend to purchase from IPCCAS a special catalyst developed by them for use in the pre-polycondensation process under the IPCCAS Direct Polycondensation Process.

Steam

Steam is a necessary input for BDO production. We use steam to pre-heat reactors in order to facilitate the necessary chemical reactions required to produce our products. During the Track Record Period prior to commencement of our in-house maleic anhydride production in December 2009, all of our steam was supplied by Sinopec Shengli via a pipeline, with an average purchase price of approximately RMB225.25, RMB225.25 and RMB225.25 per ton, respectively. Since commencement of our maleic anhydride production, the steam produced as by-product from the production process of maleic anhydride is more than able to satisfy our internal steam demand for BDO production and we sell the excess steam produced back to Sinopec Shengli.

Electricity

During the Track Record Period, our electricity is principally supplied by an electricity supplier in the Shandong province. During the Track Record Period, we have not experienced any material suspension of production at our facilities due to power shortage, and planned shutdowns are undertaken only in accordance with our annual maintenance schedule.

Suppliers

Our suppliers are mostly located in the Shandong province. We typically enter into or renew supply contracts based upon an annual review of quality, pricing terms and our projected demand for the coming year. We generally enter into framework purchase agreement with Sinopec Shengli for a period of one to two years. We generally enter into framework purchase agreement with our other suppliers annually whereby the estimated quantity and quality of raw materials that we will purchase and other general terms are stipulated while the time of delivery and prices are determined on a monthly basis. These annual framework purchase agreements are entered into mainly for purpose of better securing a reliable and timely supply of large quantities of raw materials that meet our specifications. We are generally granted credit terms of up to a maximum of 90 days from our suppliers. Since 2008, we made prepayments for purchase of some of our maleic anhydride, to secure favourable price from our maleic anhydride suppliers.

Our five largest suppliers during the Track Record Period were mostly maleic anhydride suppliers. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, purchases from our five largest suppliers accounted for approximately 86.4%, 84.5%, 73.0% and 82.5% of our total amount of purchases, and the largest supplier accounted for 23.4%, 20.5%, 19.9% and 32.3% of our total amount of purchases, respectively. None of our Directors, their respective associates, or to the knowledge of our Directors, shareholders who will own more than 5% of our issued share capital immediately following the Global Offering had any interests in any of our five largest suppliers during the Track Record Period.

SALES AND MARKETING

Our customers

We sell our products principally to PRC manufacturers of different industries such as chemicals, pharmaceutical and industrial electronics, which are primarily located in the Eastern region of China. The following table sets out our breakdown of revenue by geographic location during the Track Record Period:

	Year ended December 31,						Five months ended	
	2007		2008		2009		May 31, 2010	
	Revenue (RMB'000)	*Percentage (%)*	*Revenue (RMB'000)*	*Percentage (%)*	*Revenue (RMB'000)*	*Percentage (%)*	*Revenue (RMB'000)*	*Percentage (%)*
Eastern Region[1]	703,365	79.7	717,409	81.2	615,195	82.5	312,403	81.4
Central Region[2]	89,649	10.1	74,563	8.4	44,751	6.0	28,669	7.5
Northern Region[3]	81,107	9.2	82,983	9.4	68,516	9.2	36,258	9.4
Southern Region[4]	8,150	0.9	8,343	1.0	11,275	1.5	3,647	0.9
North-eastern Region[5]	398	0.1	–	–	5,626	0.8	2,924	0.8
Total	**882,669**	**100.0**	**883,298**	**100.0**	**745,363**	**100.0**	**383,901**	**100.0**

Note:

(1) Eastern region includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong and Jiangxi.
(2) Central region includes Hubei, Hunan and Henan.
(3) Northern region includes Beijing, Tianjin, Hebei and Shaanxi.
(4) Southern region includes Fujian, Hubei, Guangdong and Hainan.
(5) North-eastern region includes Liaoning, Jilin and Heilongjiang.

We have established and maintained long-term and close relationships with our key customers by providing consistent quantity and high quality products to them. Our customer base has been reasonably stable from year to year. We generally grant 15-30 days credit period to our long-term customers. Our ten largest customers included seven of the same companies for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010. Sales to our five largest customers accounted for approximately 37.8%, 34.1%, 21.5% and 26.1% of our revenue while sales to our largest customer accounted for approximately 9.5%, 8.7%, 5.6% and 7.4% of our revenue,

respectively, during each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010. None of our Directors, their respective associates, or to the knowledge of our Directors, shareholders who will own more than 5% of our issued share capital immediately following the Global Offering had any interests in any of our five largest customers during the Track Record Period. We make provisions on impairment of trade receivables based on assessment of their recoverability through reviewing the aging of our receivables and settlement history of our customers. We have not made any provision for trade receivables during the Track Record Period.

We did not sell any BDO or its derivatives to any manufacturer of PBS or PBS copolymers for the Track Record Period. Additionally, during the Track Record Period, we have neither directly exported our products nor, to our knowledge, have we sold our products to customers who in turn re-sell and export our products without further processing. We believe domestic demand will be sufficient to absorb the increases to our production capacity resulting from our planned Zibo expansion based on the forecasted demand for BDO stated in the Huajing Report. However, we may eventually consider moving into the export market as our designed production capacity expands and depending on the gap between prevailing domestic and international BDO prices.

We believe that our success in developing our PBS business depends on our research, marketing and production capabilities. With the support of our PBS research team, our management team and our marketing director have been working together on PBS market researching, forecasting market demands, and sourcing and liaising with potential PBS customers. As PBS and PBS copolymers are relatively new materials, we have adopted a customer-oriented approach at this initial stage by taking the initiatives to test formulations for and carry out trial production of various types of PBS and PBS copolymers for our potential PBS customers' downstream applications. We have been working closely with our potential PBS customers to ensure that our PBS and PBS copolymers can satisfy their production needs.

In terms of the development of customer base for PBS and PBS copolymers currently under our product development pipeline, we have formulated a near-term market strategy to focus mainly on customers who are capable of producing and marketing the corresponding downstream PBS and PBS copolymer-based end products with our PBS and PBS copolymers. As these near-term targeted customers are different from customers of our existing BDO products, the introduction of PBS and PBS copolymers is also expected to broaden our overall customer-base. Moreover, we believe this direct sales model, as compared to a distributorship sales model, allows us to obtain first-hand market information directly from these customers and helps us to build long-term and close customer relationships. As at the Latest Practicable Date, we had entered into non-legally binding letters of intent, valid up to December 31, 2013, with several Independent Third Party PRC manufacturers of medical supplies, packaging and hygienic disposables for intended PBS and PBS copolymers orders totaling over 17,000 tons per annum.

Sales and marketing

The table below sets forth, for the periods indicated, our sales revenue and the corresponding sales volume of our products.

	Year ended December 31,												Five months ended			
	2007				2008				2009				May 31, 2010			
	Revenue		Sales Volume		Revenue		Sales Volume		Revenue		Sales Volume		Revenue		Sales Volume	
	RMB'000	*%*	*tons*	*%*	*RMB'000*	*%*	*tons*	*%*	*RMB'000*	*%*	*tons*	*%*	*RMB'000*	*%*	*tons*	*%*
BDO	489,036	55.4	29,263	60.6	529,475	59.9	35,099	63.3	414,741	55.6	34,952	60.8	209,486	54.6	14,561	58.2
GBL	240,209	27.2	12,470	25.8	243,986	27.6	14,905	26.9	221,696	29.7	15,780	27.5	112,875	29.4	7,016	28.1
THF	153,424	17.4	6,581	13.6	109,837	12.5	5,431	9.8	108,926	14.7	6,716	11.7	61,540	16.0	3,435	13.7
Total	882,669	100.0	48,314	100.0	883,298	100.0	55,435	100.0	745,363	100.0	57,448	100.0	383,901	100.0	25,012	100.0

While timing varies based on order specifications, our orders have an approximate lead time of one to two weeks.

We enter into framework supply agreements with our regular customers setting forth product specifications, total quantity and other general terms and conditions whereas the prices of which are determined on a monthly basis. Such agreements usually have a term of one year, with orders being placed and filled pursuant to customers' periodic instructions based upon the terms in the annual framework supply agreement.

Our sales contracts typically contain provisions that require us to deliver BDO and derivative products with specific characteristics. During the Track Record Period, we have not received any material complaints from our customers regarding the quality of our products and none of our orders were rejected or resulted in returns. We generally require our customers to make payment upon delivery of products, except that for those long-term customers who place orders of substantial amounts and who have a good payment record, we normally accept deferred payment on a case-by-case basis. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

As at the Latest Practicable Date, our sales department consisted of 6 personnel based in a sales center in Jinan, Shandong province. Their principal responsibilities include customer relationship management, order consultation and sales coordination and control. We also promote sales through participation in trade shows, and industry conferences.

Pricing

The following is the average selling price (net of value-added tax) of each of our products for the Track Record Period:

	Year ended December 31,			Five months ended May 31,
	2007	2008	2009	2010
	(RMB/ton)			
BDO	16,712	15,085	11,866	14,387
GBL	19,263	16,369	14,049	16,088
THF	23,313	20,224	16,219	17,916

The selling prices of our BDO and its derivative products are primarily determined by prevailing domestic and international market prices, which, in turn, are determined by demand and supply in the domestic and international market, the prices set by our competitors and our ability to identify new markets for our products. In determining prices for individual orders, we also take into account customer specifications, lead times, transport costs and quantities ordered. Our Group's average selling prices of BDO, and its derivative products GBL and THF were in a decreasing trend from second quarter of 2007 to early 2009 for a number of reasons, including (i) the global economic downturn; (ii) the excessive price pressure resulting from the dumping behavior of BDO manufacturers in Saudi Arabia and Taiwan; (iii) the significant decrease in the price of BDO in China in 2008, from the highest at RMB23,000 per ton to the lowest at RMB9,200 per ton; and (iv) the significant decrease in our average purchase price of maleic anhydride, the primary raw material for the production of BDO, which created room for reduced BDO prices. However, since April 2009, the price of BDO in China had started to rebound as a result of the expected affirmative anti-dumping investigation results and global economic recovery. In December 2009, most of the domestic BDO manufacturers priced their BDO products at or over RMB13,500 per ton, representing an increase of 46.7% from its trough. The average market price of BDO has continued to increase in 2010 and reached RMB13,248 per ton in June 2010.

We believe that high-volume production capabilities and the superior quality and high purity of our products manufactured by he DAVY Process differentiate us from many of our domestic competitors and provide a significant competitive advantage, allowing us to sell our products at a premium. We believe that our customers prefer to purchase BDO and BDO derivative products from large-scale producers to ensure consistent quantity, high quality, stable supplies and low logistical and administrative expenses.

COMPETITION

BDO

Since BDO is an important basic organic chemical raw material and a feedstock for fine chemicals, its market demand is influenced by the overall development of China's economy and the chemical industry. Leveraged on the rapid development of China's chemical manufacturing industry, domestically produced BDO cannot fully satisfy China's demand despite the significant growth in BDO production in the past few years, and China remains a net importer of BDO during 2005 to 2009.

Since establishment, our BDO and derivative products have been sold domestically. As far as we are aware, there are currently nine major domestic BDO manufacturers in China with a total designed BDO production capacity of 371,000 tons in 2009. A summary of them is as follows:

Company	**Designed BDO Production Capacity in 2009 (tons)**	**Technology Employed**	**Market Share in 2009 (sales volume of BDO in the PRC market)** *(note 2)*
Shanxi Sanwei Group Co., Ltd.* (山西三維集團股份有限公司)	75,000	REPPE Process	34.2%
Xinjiang MarkorChem Co., Ltd.* (新疆美克化工有限責任公司)	60,000	REPPE Process	15.2%
Nanjing Bluestar New Chemical Materials Co., Ltd.* (南京藍星化工新材料有限公司)	55,000	DAVY Process	9.5%
Dairen Chemical Corp.* (大連化學工業股份有限公司)	36,000	Propylene Oxide Process	N/A
Dongying Shengli A&C Chemical Co., Ltd.* (東營勝利中亞化工有限公司), a subsidiary of our Group	***35,000***	***DAVY Process***	***16.0%***
Fujian Meizhou Lvjian Industry Co., Ltd.* (福建湄洲氯堿工業有限公司)	30,000 *(note 1)*	REPPE Process	N/A

Company	Designed BDO Production Capacity in 2009 (tons)	Technology Employed	Market Share in 2009 (sales volume of BDO in the PRC market) *(note 2)*
Shanxi Bidi Ouhua Chemical Co., Ltd.* (陝西比迪歐化工有限公司)	30,000 *(note 1)*	REPPE Process	3.5%
Sichuan Tianhua Co., Ltd.* (四川天華股份有限公司)	25,000	REPPE Process	4.8%
Yunnan Yunwei Group Co., Ltd.* (雲南雲維集團有限公司)	25,000 *(note 1)*	REPPE Process	N/A

Source: the Huajing Report

Note:

1 Facilities were in construction or commenced trial production during the year of 2009.

2 Only the market share of the six largest BDO manufacturers in China in terms of sales volume is available in the Huajing report.

Our sales volume is affected by the market demand for our BDO and BDO derivative products and the production capacity of our competitors. We compete on the basis of reliable and timely production, customer service, product quality and consistency, price and our ability to fill high-volume orders.

We generally are able to market our BDO products at prices higher than the prevailing market prices in the PRC. The DAVY Process we employ for our BDO production is considered more advanced and cost efficient than the traditional REPPE Process, which to date is still widely used among China's BDO manufacturers. We believe that with our accumulated expertise and know-how in employing the DAVY Process early on for our BDO production, we are able to operate our BDO production facilities at high efficiency and produce BDO at a higher purity level than the PRC national standard. This in turn gives us the competitive advantage over our competitors and enables us to price our BDO products at a premium to the prevailing market prices. Our ability to price our BDO products at a premium to the prevailing market prices coupled with the cost efficiency of our production process enables us to achieve a higher gross profit margin than some of our competitors.

In addition to domestic BDO manufacturers, we also face significant competition from BDO producers located outside China who export their products for sale in China. In recent years, some producers from Saudi Arabia and Taiwan were dumping BDO in China and led to the decline in BDO average sales price. In response to complaints from BDO producers in China, on December 24, 2009, MOFCOM considered that BDO producers from Saudi Arabia and Taiwan had been dumping BDO in the China market which

significantly damaged the domestic BDO industry. As a result, MOFCOM imposed an anti-dumping duty at a rate of 4.5% to 13.6% on BDO imported from Saudi Arabia and Taiwan into China for a period of five years from December 25, 2009.

PBS

PBS and PBS copolymers are relatively new products among the biodegradable polymers in the global market and the PBS and PBS copolymer segment in China is currently at an initial stage of development. Currently, the PRC government emphasizes the importance of environmental protection and promotes the use of biodegradable plastic materials, which we believe creates a favorable policy environment for the growth of the PBS and PBS copolymer market.

Until recently, China has been entirely reliant on foreign supplies of PBS and PBS copolymers, primarily purchased from suppliers in Japan and South Korea. According to Freedonia, total demand for PBS and PBS copolymers reached approximately 5,050 tons in China in 2009. To the best of our knowledge, we have so far identified two PBS manufacturers in China. A pharmaceutical and health care products manufacturer in Zhejiang province employs the IPCCAS Direct Polycondensation Process to produce PBS and had an annual PBS production capacity of 3,000 tons which is expected to increase to 20,000 tons in 2011. The PBS produced by this manufacturer is mainly used for onward production of its products. Another one, a succinic acid manufacturer in Anhui province, employs the chain extension process collaborated with Tsinghua University to produce PBS and had an annual production capacity of 10,000 tons which came on line in October 2009. To the best of our knowledge, we have not identified any manufacturer of PBS copolymers in China to date.

The prices of PBS and PBS copolymers in China may be determined or influenced by various factors, such as availability of other biodegradable polymers, PRC government policy on biodegradable materials, global and domestic PBS and PBS copolymer supply and demand, development of downstream BDO derivative products and applications, the prices set by our competitors and our ability to identify and develop markets for our PBS and PBS copolymer products.

As and when our PBS and PBS copolymers are launched to the market, we expect to compete with domestic PBS producers (either producing PBS using the same technology granted to us by IPCCAS or other technology developed by other research institutions in China), and overseas PBS and PBS copolymer producers, particularly in Japan and the United States, who may have a longer operating history, more experience and better marketing resources in respect of PBS and PBS copolymers than we do. We intend to produce PBS and PBS copolymers, which are biodegradable according to the international degradability standards, in particular ASTM D6400 and EN13432. Please refer to the paragraph headed "Degradability standards and certification" in the section headed "Industry Overview" in the prospectus for details of the said standards.

See section headed "Industry overview" in this prospectus for more information.

RESEARCH AND DEVELOPMENT

We remain focused on enhancing the efficiency of our production technology, improving our product quality and conducting research on how to further vertically integrate our production chain. Over the years, our technical personnels have successfully developed and recommended various solutions to improve our BDO production process. SINOPEC Fushun Research Institute of Petroleum and Petrochemicals* (中國石油化工有限公司撫順石油化工開發研究院) ("**FRIPP**") and Institute of Coal Chemistry of the Chinese Academy of Sciences (中國科學院山西煤炭化學研究所) ("**ICCCAS**"), being China's leading research institutions in the petrochemical industry, have from time to time collaborated with us and provided technical support and updates on industrial development for us to improve our production process and optimize our operational efficiency. For example, we entered into an agreement with FRIPP in November 2004 to develop an esterification catalyst for use in our BDO production facility in order to lower our production costs. Our primary responsibilities under the agreement with FRIPP include performing various tests on the quality, shelf life and other metrics of the esterification catalyst and providing feedback to FRIPP to aid their development efforts. Under the agreement, FRIPP owns the intellectual property rights of the esterification catalyst, which our Group has priority to purchase at a discounted price. Recently in January 2010, we also entered into a technology advancement design contract with ICCCAS, pursuant to which ICCCAS would provide design plans for upgrading our maleic anhydride production facility in Dongying to increase its production capacity to 20,000 tpa with purity level of 99.5% and above, and oversee the upgrade process, and our Group is primarily responsible for the financial cost of such technological advancement and upgrade.

In connection with our planned expansion into the development and production of PBS and PBS copolymers, we initially entered into a letter of intent with IPCCAS on July 27, 2009 which set out, among other things, the intention of the parties to collaborate on the research of new PBS formulations and potential applications. Subsequently in December 2009, we entered into a formal technology licensing agreement with IPCCAS (which supplemented by a supplemental agreement dated October 29, 2010), under which we were granted a non-exclusive license to use the relevant PBS resin polymerization technologies in our PBS production facilities and a 500-liter PBS laboratory facility adopting the IPCCAS Direct Polycondensation Process. As at the Latest Practicable Date, we have been advised by IPCCAS that they have successfully developed preliminary formulations for various types of PBS downstream products for certain of our potential PBS customers who are PRC manufacturers of medical supplies, packaging and hygienic disposables, and has recommended trial production for the relevant industrial applications, which includes PBS/PLA biodegradable disposable syringes and PBS-based film.

We also entered into a technology cooperation agreement with Sichuan University for an initial period of five years commencing on May 10, 2010, pursuant to which both the Polymer Research Institute (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering (高分子材料工程國家重點實驗室) of Sichuan University will join efforts with us in developing various PBS and PBS copolymer derivative formulations for commercial applications. Dr. Zhang Aimin, our chief technical officer, is a professor and doctoral member of the Polymer Research Institute* (高分子研究所) and a stationed member of the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University. Under the technology cooperation agreement, Sichuan University shall work with us to develop three to five PBS and PBS copolymer formulations with potential commercial applications each year, and shall assist us in resolving any production related technical issues. Sichuan University shall also provide us with information on updated production technologies, PBS and PBS copolymer market outlooks and analyses as well as new scientific developments in the polymer field, and shall provide technical training (with a standard equivalent to its unit course passing standard) to a minimum of two of our staff per year. Our primary responsibilities under the technology cooperation agreement with Sichuan University include (1) providing financial support to Sichuan University's research and development efforts; (2) assisting in the production development process through providing trial production facilities and applying for the relevant approvals; (3) providing all necessary assistance to Sichuan University's staff on their visits to our premises, including accommodation; and (4) providing latest market information and user feedback on the prototype products developed by Sichuan University. Under this technology cooperation agreement, any intellectual property rights developed pursuant to the collaborations under this technology cooperation agreement shall be registered jointly under both parties while we shall be entitled to the exclusive right of use.

For the purpose of the above collaborations with various research institutes, we have not entered into any profit-sharing arrangement in respect thereof.

As at the Latest Practicable Date, we had 14 technical personnels with expertise in chemical or mechanical engineering to engage in research and development activities for our BDO production and related process technology refinements. On the other hand, in preparation of our planned expansion into the downstream PBS and PBS copolymers production, we have recently established a PBS research team of 5 members in Zibo collaborating with IPCCAS and the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University. Led by Dr. Zhang Aimin, members of this research team all possess graduate or post-graduate education in the area of materials engineering, high polymers materials and chemistry and have received on-site training provided by the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University as well as IPCCAS. This research team shall be responsible for researching into different formulations of PBS and PBS copolymers for new end-product applications, as well as technology enhancements and/or refinements on our PBS production process. To facilitate our PBS research activities, we are close to completing the construction of a 500-liter PBS laboratory facility which would be used for testing formulations for and trial production of various types of PBS and PBS copolymer downstream products. The PBS laboratory facility is scheduled to be completed by end of November 2010 and put into operation by December 2010.

We believe that our on-going research and development efforts are critical to the maintenance of our long-term competitiveness, customer loyalty and our ability to attract new customers and develop new markets. We plan to continue dedicating resources to research and development activities aiming to lower the cost of raw materials, streamline manufacturing processes, increase production capacities, and develop high value-added chemicals and advanced materials.

QUALITY CONTROL

We have established a strict quality control system and a set of quality control standards for our existing BDO production. We have obtained ISO 9001:2008 certification for our quality control management system, evidencing our quality control system being able to meet international standards of quality assurance.

We have established our own analytical laboratory to perform quality assurance testing. Inspection and quality control is carried out by our staff during the production process, including (a) inspecting raw materials before acceptance; (b) examining product-in-process to ensure that product quality is satisfactory and consistent; and (c) conducting properties tests on finished products to determine consistency and quality. As at the Latest Practicable Date, we have not received any material complaints from our customers regarding the quality of our products.

Our quality control personnel are also responsible for ensuring that the quality of our product meets national standard where required. Our senior management team is actively involved in liaising with our quality control personnel to ensure that we adjust the quality level of our products to meet specific customer requirements. As at the Latest Practicable Date, we had 9 quality control employees.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we have registered two trademarks in China and one in Hong Kong. Our Dongying BDO production facility employs the patented second-generation DAVY Process developed by DAVY Process Technology Limited, which has given us consent to continue our use of the proprietary technology. Our Dongying maleic anhydride production facility employs the patented ALMA Process jointly developed by ABB Lummus Crest Inc. and Alusuisse Italia SpA, which have also given us consent to continue our use of the proprietary technology. For our new production facilities in Zibo, we have licensed the fourth-generation DAVY Process technologies from DAVY Process Technology Limited for our new BDO production facility, and have licensed from IPCCAS the IPCCAS Direct Polycondensation Process for our new PBS production facilities. See paragraphs headed "BDO – DAVY Process", "Maleic anhydride – ALMA Process" and "Production process of PBS and PBS copolymers" under this section headed "Business" in this prospectus.

We entered into an agreement with FRIPP in November 2004 to develop an esterification catalyst for use in our BDO production facility in order to lower our production costs. Under the agreement, FRIPP owns the intellectual property rights of the esterification agent, which we have priority to purchase at a discounted price. In May

2010, we entered into a technology cooperation agreement with Sichuan University for an initial period of five years commencing on May 10, 2010, pursuant to which both the Polymer Research Institute (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering (高分子材料工程國家重點實驗室) of Sichuan University will join efforts with us in developing various PBS and PBS copolymer derivative formulations for commercial applications. Under this technology cooperation agreement, any intellectual property rights developed pursuant to the collaborations under this technology cooperation agreement shall be registered jointly under both parties while we shall be entitled to the exclusive right of use.

We believe the bulk of our production expertise is in the form of process technology, manufacturing expertise and technical know-how derived from industry experience, research and development, and operating history. To protect these proprietary technologies, we rely primarily on contractual arrangements with key employees, such as our management and technical personnel. We typically enter into a standard confidentiality and non-competition agreement or include non-disclosure clauses in employment contracts with our key management and technical personnel who have access to proprietary know-how.

INSURANCE COVERAGE

We maintain insurance policies for fixed assets (including our BDO, GBL, THF and maleic anhydride production equipment) in our Dongying production facilities. We also maintain insurance policies for vehicle damages or losses, traffic accidents, and third-party liabilities for traffic accidents.

We plan to purchase insurance to cover the fixed assets to be constructed in Zibo, Shandong province. See paragraph headed "Risks relating to our business – We may incur losses resulting from operating hazards, product liability claims or business interruptions and our insurance coverage may not be sufficient to cover the risks related to our business" under the section headed "Risk factors" in this prospectus. Our Directors consider that the Group's insurance coverage is adequate and in line with the industry norm.

We have not submitted any major claims to our insurers during the Track Record Period.

PROPERTY

Jones Lang LaSalle Sallmanns Limited, an independent valuation company, has valued our real estate property interests at approximately RMB208,948,000 as at August 31, 2010. The letter, summary of values, valuation basis and the valuation certification from Jones Lang LaSalle Sallmanns Limited in connection with its valuation are set out in Appendix IV of this prospectus.

Our PRC legal advisers have confirmed that our Group has valid title certificates for all properties owned by us.

Some of our leased properties in the PRC may be subject to legal irregularities. We have not completed the lease registration for the following leased properties in the PRC:

- office units located in close proximity with our new Zibo production base as our current PRC main administration offices;
- office units located in Jinan of Shandong province as our Group's sales representative office; and
- building located in Zibo of Shandong province currently housing our 500-liter PBS laboratory facility

referred to as properties no. 4, 5, 6 and 7 under "Property interests rented and occupied by our Group in the PRC" in our property valuation report in Appendix IV to this prospectus.

The above office units are non-production related and can be readily relocated. As to our 500-liter PBS laboratory facility, it is primarily for trial and testing purposes. We intend to relocate the said facility to our new production base in Zibo City once construction of the production base is completed. Our PRC legal advisers has advised that non-registration of leases of the above properties will not render the lease agreements invalid or affect the legality of the lease agreements under the Contract Law of the PRC (《中華人民共和國合同法》).

ENVIRONMENTAL PROTECTION

We are subject to a variety of governmental laws and regulations on environmental protection. The major environmental regulations applicable to us are set out in the paragraph headed "Environmental regulations" under the section headed "Regulatory overview" in this prospectus. We have implemented various measures to ensure that we comply with the applicable PRC environmental protection laws and regulations. We have installed monitoring systems and various equipment in our production facilities to process and monitor the discharge of solid waste to minimize the impact on the environment. Our environmental protection department, led by Mr. Lu Wei, our executive Director and general manager of Dongying Shengli, maintains regular contact and communication with the relevant environmental protection bureau for the purpose of keeping abreast of any further development and changes in environmental laws and regulations.

Dongying Shengli has engaged a third party waste water and gas treatment company since January 2004 to process our waste water and gas generated from our Dongying operations. To ensure that the waste water and gas processed by such third-party waste water and gas treatment company complies with the relevant PRC laws and regulations, we have inspected its Pollutant Dischange Permit (《排污許可證》) and its business licence, and maintained close contact with its management. Our PRC legal advisers have advised us that if this third-party waste water and gas treatment company breaches any of the applicable rules, regulations and laws of the PRC in processing and discharge of the waste water and gas from our Group which results in damage to third parties, we may be held jointly and severally liable for civil liabilities towards such third

parties, but not for administrative liabilities towards government agencies if our Group is in compliance with the applicable rules regulations and the laws of the PRC. We completed construction of our own waste water treatment facility in our Dongying Production facility in September 2007 to process some of the waste water generated from our operations. This self-owned facility was put into trial run from December 2007 until October 2008, then tested by the Environment Monitoring Station of Dongying* (東營市環保監察站) on October 16, 2008, and subsequently examined and accepted by the Environmental Protection Bureau of Dongying (東營市環境保護局) on March 4, 2010. With such self-owned waste water treatment facility, we ceased to process our waste water through the waste water and gas company since 2008 and we currently use solely our own waste water treatment facility to process waste water generated from our Dongying operations. We monitor the performance of our own waste water processing and discharge through random checks on the waste water discharged to ensure that such operations are in compliance with the relevant environmental laws and regulations in the PRC. In respect of our new production base in Zibo, the Environmental Protection Bureau of Zibo (淄博市環境保護局) has approved and allowed another waste water company to process waste water generated from our operation.

Pursuant to the confirmation letters issued by the Environmental Protection Bureau of Dongying (東營市環境保護局) and the Environmental Protection Bureau of Zibo (淄博市環境保護局) on August 5, 2010, each of Dongying Shengli and Full Win New Material has been in compliance with all relevant PRC environmental laws and regulations. Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, (i) we had complied with applicable PRC laws and regulations on environmental protection in all material respects; (ii) we had completed environmental impactstudies and obtained all the required environmental permits and approvals for our production facilities; and (iii) no environmental pollution incident was discovered and no administrative penalties was made against or imposed on us. Our PRC legal advisers have confirmed that our Group has complied with all relevant PRC environmental laws and regulations in all material respects during the Track Record Period, and has obtained the required environmental permits and approvals for its operations.

According to the Yellow River Delta Economic Zone and Efficient Eco-Development Plan (黃河三角洲高效生態經濟區發展規劃) promulgated by the PRC State Council on November 23, 2009, certain regions in the PRC are segregated as the Yellow River Delta National Nature Reserve Zone (黃河三角洲自然保護區) in which the discharge of waste water and gas is strictly prohibited. Our Directors confirm that the Group's production facility in Dongying and is not located in or near from the Yellow River Delta National Nature Reserve Zone, and that the Group has never been subject to any complaint or investigation in this regard in relation to its operation in Dongying. Our PRC legal advisers have confirmed that the measures in relation to the nature reserve zone under the Yellow River Delta Economic Zone and Efficient Eco-Development Plan are not applicable to the Group.

We spent approximately RMB204,000, RMB294,000, RMB285,000 and RMB134,000 in respect of regulatory compliance with applicable environment protection requirements in the PRC for the financial years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. We expect such expenditure going forward will

increase when our new production facilities commence production. We currently do not have any specific expenditure plan in this regard. However, we will devote operating and financial resources to such compliance whenever we are required by PRC laws and regulations to do so in the future.

SAFETY CONTROL

Our chemical products and materials

Our business operations involve the use and production of chemicals that are potentially dangerous, including maleic anhydride, methanol, hydrogen, n-butane, BDO, GBL and THF. Mishandling of these chemicals could result in damage to, or destruction of, properties or production facilities, personal injury, environmental damage, business interruption and possible compliance and legal liability.

Maleic anhydride, the primary feedstock in the production of BDO using the DAVY Process, is toxic and flammable. The dust and steam from maleic anhydride causes irritation and inhalation of such can cause pharyngitis, laryngitis and bronchitis, accompanied by abdominal pain. Direct contact with eyes and skin can cause significant burns. Maleic anhydride is classified as dangerous chemical in China according to the Catalogue of Dangerous Chemicals (GB12268-2005) (《危險貨物品名表》(GB12268-2005) (the "**Catalogue**")).

Methanol, another raw material in BDO production, is highly poisonous and may result in blindness, metabolic acidosis, or damage to the central nervous system and liver if ingested or inhaled. Methanol is classified as dangerous chemical in China according to the Catalogue.

Hydrogen is an essential raw material for our BDO production. It is a flammable, colorless, odorless, compressed gas packaged in cylinders at high pressure. It poses an immediate fire and explosive hazard when concentrations exceed 4%. It is much lighter than air and burns with an invisible flame. Hydrogen is not classified as dangerous chemical in China according to the Catalogue.

N-butane is used as raw material for the production of maleic anhydride. It is a colorless gas with no odor and is in liquid form when under pressure. Exposure to n-butane can occur through eye and skin contact and inhalation. Contact with the liquefied form of n-butane causes frostbite of the eyes or skin and exposure to very high concentration of n-butane can affect the central nervous system, causing narcosis and asphyxiation. N-butane is classified as dangerous chemical in China according to the Catalogue.

BDO is toxic and flammable, and it causes slight skin, eye and respiratory tract irritation. Oral intake of more than 25mg can cause central nervous system disturbances including decreased alertness, dizziness and respiratory depression. Currently, BDO is not classified as a dangerous chemical in China according to the Catalogue.

GBL is a strong mucous membrane irritant, as well as a mild skin irritant. GBL can penetrate the epidermis and cause rashes or eczema and it also has a slight narcotic effect. GBL overdose can cause severe sickness, coma and death. Currently, GBL is not classified as dangerous chemical in China according to the Catalogue.

THF can penetrate the skin and cause rapid dehydration. THF readily dissolves latex and is typically handled with nitrile or neoprene rubber gloves. THF is highly flammable and tends to form highly-explosive peroxides when exposed to air. THF is currently classified as dangerous chemical in China according to the Catalogue.

In China, manufacturers engaged in production of certain dangerous chemicals are required to have a Safety Production Permit. Based on a confirmation letter issued by Dongying City Safe Production Administration (東營市安全生產監督管理局) dated July 27, 2009, our maleic anhydride production complies with the relevant national safe production laws and regulations. We are not required to obtain the Safety Production Permit under PRC laws and regulations for our BDO and GBL production or for our use of methanol in our BDO production. We did not obtain the relevant Safety Production Permit for THF when we commenced production of THF in January 2007. We were not required to possess a Safety Production Permit to engage in the trial production from January to June 2007, as supported by the fact that the Safety Production Administration of Dongying (東營市安全生產監督管理局) issued a confirmation letter dated August 13, 2010 confirming that, Dongying Shengli was allowed a trial production period of six months before obtaining the Safety Production Permit and the Safety Production Administration of Dongying (東營市安全生產監督管理局) would not impose any administrative penalties and fines upon Dongying Shengli during the trial production period. On June 7, 2007, we obtained our Safety Production Permit for THF, which was effective until June 6, 2010. On June 7, 2010, we renewed our Safety Production Permit for THF, which is effective until June 6, 2013. We have not in the past experienced any suspension in production of THF due to lack of any requisite license. The Safe Production Administration of Dongying (東營市安全生產監督管理局) issued a confirmation letter dated October 26, 2009 confirming that, after taking into account of the trial production application filed prior to the trial production of THF, it would not impose any fine or other administrative penalties on us for any historical failure to obtain the Safety Production Permit. Further, the Safety Production Administration of Dongying (東營市安全生產監督管理局) issued a confirmation letter dated August 5, 2010 confirming that Dongying Shanghi complies with the relevant national safety production laws and regulations, had not experienced any material accidents relating to safety production and was not subject to any fines, rectification or other penalties.

In respect of our new production base in Zibo, its construction was approved by the Safety Production Administration of Zibo (淄博市安全生產監督管理局). The Safety Production Administration of Zibo (淄博市安全生產監督管理局) issued a confirmation letter dated August 5, 2010 confirming that Full Win New Material complies with the relevant national safety production laws and regulations, had not experience any material accidents relating to safety production and was not subject to any fines, rectification or other penalties.

Occupational health and safety

We are subject to the PRC laws and regulations regarding occupational health and safety. In order to ensure compliance of relevant standards under the applicable laws, we have appointed a full-time employee for the administration and monitoring of workplace safety, set up safety warning signs at the production or operational sites with substantial risk of danger or on the relevant facilities or equipment, and provide our employees with occupational safety and health education and training to enhance their awareness of safety issues. Apart from fully complying with the applicable laws, such as the "Implementation Measures for the Safety Production Permit for the Manufacturers of Dangerous Chemicals" (危險化學品生產企業安全生產許可證實施辦法) and the "Regulations on the Safety Production Permit" (安全生產許可證條例), details of which are set out in paragraph headed "Requirements on safe production" under the section headed "Regulatory overview" in this prospectus, we voluntarily adopt measures to follow the "Guidelines of Implementing the Management System of Occupational Health and Safety in Chemical Enterprises" (化工企業職業安全健康管理體系實施指南) issued by the State Administration of Work Safety. More particularly, we have (i) established an internal management mechanism with a package of policies and principles; (ii) appointed a full-time person for the administration and monitor of work safety, (iii) effect work-related injury insurance; (iv) implemented measures to prevent occupational disease, equipped our employees with requisite appliances and set up safety warning marks at the production or business operation sites that have substantial dangerous elements or on the relevant facilities or equipment; (v) formulated an emergency plan and installed our premises with rescue facilities; and (vi) provided training to our employees on accident prevention and emergency management.

Our staff are required to attend 24 to 120 hours of training before commencement of duty, depending on their level of seniority and job nature. Our training includes a three-level safety training program (factory, production unit, and small group,) skill training, and outside training. Our training covers national laws and regulations as well as standards on production safety, corporate safety production management, labour hygiene knowledge, industrial accident insurance laws, procedures on reporting occupational injury and illnesses. We also provide medical check-ups to plant employees from time to time. At individual facilities, safety measures and regular safety inspection points are imposed at all stages in the production process to minimize the possibility of work-related accidents and injuries.

We regard occupational health and safety as one of our important social responsibilities. We have maintained a good production safety track record. In accordance with government regulations, we classify our injury records into categories ranging from light injuries to fatalities. By definition, a "light injury" case is recorded when there is any incident that causes the employee to be away from work for less than 105 days. There have been no injuries in any category since the commencement of our operations.

We have complied with the relevant PRC laws and regulations on occupational health and safety in all material respects and have not experienced any material accidents or injuries during our production process during the Track Record Period.

EMPLOYEES

As at the Latest Practicable Date, we had 210 employees (including personnel provided by third-party employment agency as set out below).

The following table shows a breakdown of our employees (including personnel seconded from Tianyu Petrochemical as set out below) by department and location as at the Latest Practicable Date:

1. Hong Kong headquarter

Department	Number of employees
Management and administration	4
Finance and accounting	3
Sub-total	7

2. Dongying and Jinan

Department	Number of employees (seconded from Tianyu Petrochemical)
Management and administration	39(2)
Production	
BDO production	32(12)
Maleic anhydride production	11(3)
Energy generation	35(2)
	82
Quality control	9(3)
Maintenance	22(5)
Production Safety	2(1)
Production process technology	8(3)
Sales and marketing	6(1)
Finance and accounting	9(1)
Sub-total	173(33)

3. Zibo

Department	Number of employees
Management and administration	20
Production process technology	7
Finance and accounting	3
Sub-total	30

Dongying Shengli has, since April 2005, entered into a secondment arrangement agreement with Shengli Oilfield Tianyu Petrochemical Engineering Co., Ltd.* (勝利油田天宇石化工程有限公司) ("**Tianyu Petrochemical**") (which is renewed from time to time), a subsidiary of China Petroleum & Chemical Corporation Shengli Oilfield Branch* (中國石油化工股份有限公司勝利油田分公司) ("**Shengli Oilfield**") and an Independent Third Party, for secondment of certain employees to Dongying Shengli. The arrangement was mutually agreed between Shengli Oilfield and our Group primarily because during the relevant time, Shengli Oilfield was under corporate restructuring which involved, among other things, streamlining its staffing, and while our Group had agreed to take on a number of staff from Shengli Oilfield for our operations, the employees in concern did not agree to terminate their permanent employment relationships as state-employees with Shengli Oilfield. Under the then effective secondment arrangement agreement, Tianyu Petrochemical would enter into employment contracts with the relevant secondment employees, who would then be sent to work at our production facilities. Our PRC legal adviser has confirmed that the above secondment arrangement is in compliance with the applicable PRC labour laws and regulations. As confirmed by our PRC legal advisers, pursuant to the relevant PRC laws, Tianyu Petrochemical, as the employer of these employees, is under the obligation to pay social insurance and housing fund for these employees. According to the secondment agreement, we are under the contractual obligation to reimburse Tianyu Petrochemical such social insurance and housing fund paid. We have fully performed the said obligation and there has not been any disputes arisen as a result of the reimbursement arrangement since the secondment arrangement was in place and up to the Latest Practicable Date. As at the Latest Practicable Date, a total of 33 employees were under such secondment arrangement.

From time to time, we also employ temporary employees to support our production. We plan to hire additional employees for our new BDO and PBS production facilities as we expand.

We believe that we offer our employees competitive compensation packages and various training programs, and as a result we have generally been able to attract and retain qualified personnel.

We believe we maintain a good working relationship with our employees and have not experienced any material labor disputes or any difficulties in recruiting staff for our operations.

Welfare contributions

Pursuant to the relevant PRC laws and regulations, we are required to pay for a portion of our employees' pension insurance, medical insurance, unemployment insurance, birth insurance, work-related injury insurance (together, "**social insurance**") and housing fund contributions. We received confirmation letters dated August 4, 2010 and August 5, 2010 from the relevant authorities confirming that each of our subsidiaries has complied with the relevant labor protection laws and regulations, and is not subject to any late payment or fine or penalties since its establishment. Due to inconsistent implementation and interpretation of the PRC laws and regulations by the relevant local authorities, during the Track Record Period, we have not fully paid, or have not been required by the relevant local authorities to fully pay, the social insurance payments for our employees, including certain temporary employees and employees under probation of Dongying Shengli and Full Win New Material who either (i) have retired prior to being employed by us; (ii) are registered as rural residents or (iii) are new joiners. As at the Latest Practicable Date, there were 22 employees of Dongying Shengli and 11 employees of Full Win New Material who fall under this category.

Also, during the Track Record Period, the social insurance and housing fund contributions of certain employees of Dongying Shengli whose permanent residence are registered in Jinan or Zibo have been arranged to be effected under social benefit accounts of Full Win New Material (our Zibo subsidiary), Shandong Quanxin Aluminum Co., Ltd.* (山東泉信不銹鋼有限公司) (a related party company in which Mr. Zhang has an effective interest of approximately 20%) and another Independent Third Party company in Jinan. This arrangement was put in place primarily because some of our employees who are residents of Jinan and Zibo are unwilling to register their social benefit accounts in Dongying. Our PRC legal advisers have advised us that such arrangements does not fully comply with relevant PRC laws. To ensure strict compliance with the relevant PRC social insurance and housing fund laws and regulations, we have entered into labour contracts with such employees and we now pay for their social insurance and housing funds directly under our own social insurance and housing fund accounts.

Moreover, during the Track Record Period, the social insurance and housing fund contributions of certain of the employees of Dongying Shengli were made by themselves and reimbursed by us. As at the Latest Practicable Date, we have rectified this practice by effecting such funds directly under our own social insurance and housing fund accounts.

As advised by our PRC legal advisers, if the above arrangements is subsequently overruled by the relevant authorities, according to applicable PRC social insurance and housing fund laws, the responsible persons of our subsidiaries may be liable to a fine up to RMB10,000 and we, as employer who fails to report and pay social insurance contributions, may be ordered to rectify the problem and pay the contributions by a stipulated deadline. As at the Latest Practicable Date, we did not receive any order to rectify the problem or notice on payment of social insurance or housing fund contribution from the government authorities, and we undertake to pay the contributions by the stipulated deadline in case we are ordered to do so. Mr. Zhang, our Controlling Shareholder, has agreed to indemnify our Group, subject to the terms and condition of the Deed of Indemnity, in respect of any liabilities that may arise as a result of any non-compliance of social insurance and housing fund laws and regulations. Our PRC legal advisers have confirmed that as we have not received any notices from or have not been ordered by the relevant government authorities to pay any outstanding social insurance and housing fund contribution up to the Latest Practicable Date, the daily late fee payment is not applicable to our Group and our Group is not subject to any other penalties or fines as a result of the above irregularities of the Group's contribution to the social insurance and housing fund.

In view of the opinion of the Company's PRC legal advisers and given Mr. Zhang has agreed to indemnify our Group in respect of any liabilities that may arise as a result of any non-compliance of social insurance and housing fund laws and regulations, we consider that it is not necessary to make, and accordingly had not made any provision for soical insurance contributions during the Track Record Period.

In case we are requested by the relevant government authorities in the PRC to pay the amounts of social insurance and housing fund contributions deemed outstanding, the maximum total amount of fund contributions payable by our Group up to May 31, 2010 is estimated to amount to approximately RMB3.5 million calculated by deducting the total amount of social insurance and housing fund contributed by us of approximately RMB4.9 million from the total maximum amount of social insurance and housing fund payable by us of approximately RMB8.4 million up to May 31, 2010.

LEGAL COMPLIANCE

Our Company's PRC legal advisers have confirmed that our Group had obtained all the necessary approvals, licenses and permits from appropriate regulatory authorities in all material respects for our current business operations in the PRC.

DIRECTORS

Our Board currently consists of nine Directors, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. The Board is responsible for and has general powers over the management and conduct of our business. The table below shows certain information in respect of the members of our Board:

Name	Age	Position
Zhang Kaijun (張凱鈞)	47	Chairman and Executive Director
Huang Cheng (黃澄)	46	Executive Director and Chief Executive Officer
Lu Wei (盧偉)	47	Executive Director
Wong Yee Shuen Wilson (黃以信)	43	Executive Director, Chief Financial Officer and Company Secretary
Qin Kebo (秦克波)	37	Non-executive Director
Wu Chi Chiu (胡志釗)	47	Non-executive Director
Chan Ngai Sang Kenny (陳毅生)	45	Independent Non-executive Director
Guo Tianyong (郭田勇)	41	Independent Non-executive Director
Lee Kwan Hung (李均雄)	45	Independent Non-executive Director

Executive Directors

Zhang Kaijun (張凱鈞) (formerly known as Zhang Ke (張克)), aged 47, is an executive Director, the chairman of our Board and the founder of our Group. He is responsible for overseeing and guiding the business and affairs of our Board as well as our Group's strategic focus and development strategies. He has over 16 years of experience in business operation and management in the chemical, stainless steel and non-ferrous metal industries. Between 1994 and 2003, Mr. Zhang established and operated Zouping County Metal Recycling Company* (鄒平縣金屬回收總公司) and Zouping County Nonferrous Metal Company* (鄒平縣有色金屬公司). He not only developed a vertical production system from collection of scrap metals, processing and production of recycled metal products for these two companies but also gained extensive experience in enterprise management during those years. In 1994, he obtained numerous awards for his contributions to the economy of Zouping County and Shandong Province including but not limited to being one of the "Top Ten Outstanding Youths in Shandong Province*" (山東省十大傑出青年) and one of the "Model Workers of the Shandong Province*" (山東省勞動模範). Between September 2001 and January 2005, Mr. Zhang had been the chairman of the board of directors of Shandong Jinpeng Copper Co., Ltd. (山東金鵬銅業有限公司), a Sino-foreign equity joint venture incorporated in the PRC with limited liability engaged in manufacturing of copper in which Mr. Zhang has a direct equity interest of approximately 39.2%. He had also been a director of Shandong Quanxin Stainless Steel Co., Ltd. (山東泉信不銹鋼有限公司), a Sino-foreign equity joint venture incorporated in the PRC with limited liability engaged in the manufacturing of stainless steel and 49% owned by Shandong Jinpeng Copper Co., Ltd. (山東金鵬銅業有限公司), between January 2003 and January 2005. In the three years preceding the Latest Practicable Date, Mr. Zhang did not hold any directorship in other listed companies. He was appointed as an executive Director in August 27, 2009.

Huang Cheng (黃澄), aged 46, is an executive Director and our chief executive officer responsible for devising and overseeing the implementation of our Group's investment and business development strategies. Mr. Huang has over 16 years of experience in investment banking and had participated in corporate finance, corporate restructuring and financial advisory transactions in the PRC. Mr. Huang graduated with a bachelor's degree in economics in 1986 and subsequently obtained his master's degree in international finance in 1992 from East China Normal University (華東師範大學). Mr. Huang had worked for Zhejiang Securities Company Limited* (浙江證券有限責任公司) during the period from July 1992 to July 2002 as manager, assistant to general manager and general manager of its investment banking department. Subsequently Mr. Huang had held senior management positions, including vice president and executive director, in a number of PRC companies including Shanghai Shentong Technology Group Company Limited* (上海申通集團有限公司) and Shanghai Tiancheng Investment Management Company Limited* (上海天晟投資管理有限公司) prior to joining our Group in December 2007. In the three years preceding the Latest Practicable Date, Mr. Huang did not hold any directorship in other listed companies. He was appointed as an executive Director in June 28, 2010.

Lu Wei (盧偉), aged 56, is an executive Director and is responsible for overseeing our Group's operational management and business development in the PRC. Mr. Lu is the deputy chairman and general manager of Dongying Shengli, and has been with our Group since December 2003. He graduated from Shandong Industrial College* (山東工學院) (now Shandong University (山東大學)) with a bachelor's degree in mechanical engineering in 1983. Mr. Lu was accredited as a senior engineer by Mechanical Engineering and Technical Position Advance Accreditation Committee of Shandong Province* (山東省機械工程技術職務高級評審委員會) in 1999 and has over 16 years of experience in business operation and management. From January 1984 to January 1988, he served as the deputy head of the Faculty of Engineering at Zibo College (淄博學院) (which merged with Shandong College of Engineering (山東工程學院) and became the existing Shandong University of Technology (山東理工大學)) and was promoted to the head of the same faculty in January 1989. From January 1994 to December 2001, he worked as the manager of the department of production technology in Shandong Zibo Huachen Group Company* (山東淄博華辰集團總公司). He was the deputy general manager of Zouping Petro-Chemical Co. Ltd.* (鄒平石油化工有限公司) from January 2002 to July 2003. In the three years preceding the Latest Practicable Date, Mr. Lu did not hold any directorship in other listed companies. He was appointed as an executive Director on June 28, 2010.

Wong Yee Shuen Wilson (黃以信), aged 43, is an executive Director, chief financial officer and company secretary of our Company and is responsible for our Group's financial operation, capital control and risk management. He was admitted as a certified practicing accountant of the Australian Society of Certified Practicing Accountants in 1995. Mr. Wong graduated with a master's degree in commerce in finance from the University of New South Wales in 1994. He is a member of the Australian Institute of Banking and Finance since 2001 and a fellow member of the Hong Kong Institute of Certified Public Accountants since 2003. For the periods from January 1991 to February 2004, he worked in PricewaterhouseCoopers Consultants (Shenzhen) Ltd. Beijing Branch as a senior manager in the assurance department. Mr. Wong also served as the senior manager of Ernst & Young (Shenzhen) from November 2005 to September 2006 prior to

joining our Group in December 2007. In September 2005, Mr. Wong was appointed as an independent director of Memory Devices Limited, a company listed on the Singapore Stock Exchange, and resigned with effect from September 16, 2008 for the pursuit of personal interests and other commitments. Mr. Wong is currently an independent non-executive director of China Pipe Group Limited (stock code: 380) a company listed on the Main Board of the Stock Exchange and Contel Corporation Limited, a company listed on the Singapore Stock Exchange. Save as disclosed above, in the three years preceding the Latest Practicable Date, Mr. Wong did not hold any directorship in other listed companies. He was appointed as an executive Director on June 28, 2010.

Non-Executive Directors

Qin Kebo (秦克波), aged 37, is a non-executive Director. Mr. Qin is a legal representative and executive director of Hylt (Shen Zhen) Invest & Manage Co. Ltd.* (海源龍騰(深圳)投資管理有限公司) since July 2006 and is the chairman of China Sun Fund Management Co., Ltd.* (中國陽光投資基金管理有限公司) since June 2003. He has also been employed as a researcher in the Peking University (北京大學) since 2008. Mr. Qin obtained his Master of Business Administration degree from the Macau University of Science and Technology in 2007 and his doctoral degree in business administration from California American University in July 2010. In the three years preceding the Latest Practicable Date, Mr. Qin did not hold any directorship in other listed companies. He was appointed as our non-executive Director on November 16, 2010. The appointment of Mr. Qin Kebo was solely the decision of our Company and was not stipulated in the Sun Ascent SPA as a special right granted to Sun Ascent. Also, no indemnification agreement was entered into between our Company and Mr. Qin.

Wu Chi Chiu (胡志釗), aged 47, is a non-executive Director. Mr. Wu has been an executive director of China Motion Telecom International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 989) since February 2006 and the vice chairman and chief executive officer of the same Company since March 2006. He had been an independent non-executive director of Sustainable Forest Holdings Limited (formerly known as Bright Prosperous Holdings Limited) (stock code: 723), a company listed on the Main Board of the Stock Exchange, from August 2007 to August 2008. Mr. Wu obtained his Bachelor of Science degree from the University of Toronto, Canada in 1986. Save as disclosed above, in the three years preceding the Latest Practicable Date, Mr. Wu did not hold any directorship in other listed companies. He was appointed as our non-executive Director on November 16, 2010.

Independent Non-Executive Directors

Chan Ngai Sang Kenny (陳毅生), aged 45, is a partner and founder of Kenny Chan & Co., a firm of Certified Public Accountants. He obtained his Bachelor of Commerce degree from the University of New South Wales in October 1988 and is a member of the Institute of Chartered Accountants of New Zealand, the Association of International Accountants, the CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He also served as the District Governor of Lions Clubs International District 303 – Hong Kong & Macao, China in 2009/2010 and presently serves on several tribunals of the HKSAR Government which include the Administration Appeals Board, the Registration of Persons Tribunal and the Solicitors Disciplinary Tribunal Panel. He is also a committee member of the Association of International

Accountants Hong Kong Branch. He is an independent non-executive director of Goldmond Holdings Limited (stock code: 8190), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chan is also an independent non-executive director of TSC Offshore Group Limited (stock code: 206) and China Best Group Holding Limited (stock code: 370), both of which are listed on the Main Board of the Stock Exchange. Save as disclosed above, in the three years preceding the Latest Practicable Date, Mr. Chan did not hold any directorship in other listed companies. He was appointed as our independent non-executive Director on November 16, 2010.

Guo Tianyong (郭田勇), aged 41, is a professor of the Central University of Finance and Economics, School of Finance (中央財經大學金融學院). Dr. Guo is also the Supervisor of the China Banking Industry Research Centre of the Central University of Finance and Economics* (中央財經大學中國銀行業研究中心主任) and council member of the China International Finance Association* (中國國際金融學會). Dr. Guo obtained his doctoral degree in economics from Graduate School of the People's Bank of China (中國人民銀行總行金融研究所) in 1999, master's degree in economics from Renmin University in 1996, and bachelor's degree in mathematics from Shangdong University in 1990. Dr. Guo was appointed as the deputy supervisor of the Beijing Finance Committee of China Democracy Development Party* (中國民主建國會北京市金融委員會) in 2009. Dr. Guo was awarded the China Society for Finance and Banking the Fifth Excellent Finance Academic Journal Third Award* (中國金融學會第五屆全國金融優秀論文評選三等獎) in 2001, and was selected for the 2007 State Level New Century Excellent Talent Support Program* (國家級「新世紀優秀人才支持計劃」"). In 2008, Dr. Guo was awarded the 2008 China Financial Expert Visionary Award* (2008中國金融專家遠見獎). Dr. Guo is also the author of a number of books including Zhongguo Huobi Zhengce Tixi de Xuanze* (《中國貨幣政策體系的選擇》), Jinrong Jianguan Xue* (《金融監管學》) and Guo Tianyong Jiang Li Deman* (《郭田勇講里德曼》). In the three years preceding the Latest Practicable Date, Dr. Guo did not hold any directorship in other listed companies. He was appointed as our independent non-executive Director on November 16, 2010.

Lee Kwan Hung (李均雄), aged 45, is a partner of Woo, Kwan, Lee & Lo, a reputable law firm in Hong Kong and the chief representative of Woo, Kwan, Lee & Lo's Beijing Office. Mr. Lee received his Bachelor of Laws (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997. Mr. Lee is currently an independent non-executive director of GZI REIT Asset Management Limited (the manager of GZI Real Estate Investment Trust) (stock code: 405), Embry Holdings Limited (stock code: 1388), NetDragon Websoft Inc. (stock code: 777), Asia Cassava Resources Holdings Limited (stock code: 841), Futong Technology Development Holdings Limited (stock code: 465) and New Universe International Group Limited (stock code: 8068), the shares of these companies are listed on the Hong Kong Stock Exchange. In the three years preceding the Latest Practicable Date, Mr. Lee had been a non-executive director of Mirabell International Holdings Limited and GST Holdings Limited prior to the privatization of both companies. Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed companies. He was appointed as our independent non-executive Director on November 16, 2010.

SENIOR MANAGEMENT

Zhang Xueqing (張學慶), aged 38, is the production director of our Company. He has over 10 years of experience in the field of production and operational management. He obtained his bachelor's degree from Northeast Dianli College* (東北電力學院) (currently known as Northeast Dianli University (東北電力大學)) in 1995. Mr. Zhang joined our Group in January 2004 as production director. Mr. Zhang was the person-in-charge of BDO production plant of a Shandong company under Sinopec Shengli Oilfield Company Petrochemical Factory* (中國石化勝利油田有限公司石油化工總廠) from 1992 to 2002. Mr. Zhang was accredited the engineer-level by Shengli Petroleum Administration Bureau* (勝利石油管理局) in 2008. He is responsible for establishing and modifying the production systems, technical procedures and management policies, setting production targets in accordance with our Group's business target, managing the quality controls of our Group's products and overseeing production progresses, costs of production, delivery of products, industrial safety and on-site management.

Li Xiangdong (李向東), aged 51, is the deputy manager of our Company. He has over 20 years experience in sales and marketing. He obtained his bachelor's degree from Shandong Radio and TV University (山東廣播電視大學) in 1986. From January 1987 to December 1994, Mr. Li worked in Shandong Textile Supply Company (山東省紡織供銷總公司) as manager of the marketing department. Mr. Li joined our Group in January 2004 and is responsible for establishing development strategies in the field of sales and marketing, developing business expansion, managing sales teams of our Company, streamlining the sales procedures, procuring the realization of the sales targets and conducting relevant assessments in relation to sales and marketing of our Group.

Li Ying (李穎), aged 45, has been appointed as the marketing director of our Company since July 2009. Mr. Li obtained his bachelor's degree in finance from Shandong Economics College(山東經濟學院) in July 1986 and his doctoral degree in Western Economics from Shanghai University of Finance and Economics (上海財經大學) in February 2001. Mr. Li was a post-doctoral researcher in economics and business administration at Fudan University (復旦大學). He has over seven years of experience in marketing. Prior to joining our Group, he worked in China Huiyuan Juice Group Limited (中國匯源果汁控股有限公司) and Shenyin Wanguo Finance (H.K.) Limited (申銀萬國(香港)融資有限公司). He is responsible for devising market development strategies and policies, realizing the market development targets, establishing brand management policy and assessing the practicability of business plans for our Group.

Luo Benan (羅本安), aged 40, is the human resources director of our Company. He obtained a bachelor's degree in wood processing from Northeast Forestry University (東北林業大學) in 1993. He joined our Group in January 2004 and has over 10 years of experience in the fields of human resource management and internal management. Mr. Luo took up several managerial positions in Huachen Group Zibo Duyi Furniture Company Limited (華辰集團淄博都宜家具有限公司) from January 1994 to November 2003. He is responsible for planning and coordinating human resources in our Group and streamlining the human resource management system.

Zhang Aimin (張愛民), aged 40, has been appointed as the chief technical officer of our Group since November 2009. Mr. Zhang has over 12 years of experience in polymer engineering research. Dr. Zhang obtained his bachelor's degree from Chengdu University of Science and Technology (成都科技大學) and master's degree from Sichuan Union University (四川聯合大學) (now Sichuan University (四川大學)) in 1991 and 1994 respectively, and further obtained his doctoral degree from Sichuan Union University (四川聯合大學) in 1997. He has been teaching in the Polymer Research Institute of Sichuan University (四川大學高分子研究所) as deputy professor, professor and doctoral adviser since 1997. In addition to his teaching post, Dr. Zhang is a stationed member of the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University. Since 2000, he has been responsible for several research projects including the National Natural Foundation of China Project* (國家自然科學基金重點項目), the 863 Project – "Technology Development of Thermoplastic Elastomer SEBS" (863計劃 – "熱塑性彈性體SEBS成套技術開發") jointly run by Sinopec Baling Petrochemical Limited Liability Company* (中國石化集團巴陵石油化工有限責任公司) and Beijing University of Chemical Technology (北京化工大學), the National Basic Research Programme: Basic Research on High Performance of the General Polymer Materials (973 Project)* (國家重點基礎研究發展規劃項目：通用高分子材料高性能化學基礎研究(973項目)) run by Sichuan University (四川大學) and projects for China National Petroleum Corporation and China Petroleum and Chemical Corporation. In 2000, he was nominated as one of the Outstanding Doctoral Scholars in Sichuan (作出突出貢獻的四川省博士學位獲得者). He was awarded the first prize of the National Technical Progress Award* (科技進步一等獎) in 1999 and the first prize of the Award of SINOPEC Scientific and Technological Progress Prize* (中石化科技進步一等獎) in 2008. Dr. Zhang joined our Group in November 2009 as our chief technical officer responsible for developing new products and to provide ongoing advice and assistance in the implementation of PBS and PBS copolymer production technology.

Details of the qualifications and experience of Mr. Huang Cheng, Mr. Lu Wei and Mr. Wong Yee Shuen Wilson are set out in the paragraph headed "Directors – Executive Directors" in this section.

COMPANY SECRETARY

Our company secretary is Mr. Wong Yee Shuen Wilson (黃以信). Details of the qualifications and experience of Mr. Wong are set out in the paragraph headed "Directors – Executive Directors" in this section.

BOARD COMMITTEES

Audit Committee

We have established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise our financial reporting process and internal control of our Company, nominate and monitor external auditors and provide advice and comments to the Board.

The Audit Committee comprises three members, namely Mr. Chan Ngai Sang Kenny, Mr. Lee Kwan Hung and Mr. Guo Tianyong, who are independent non-executive Directors. The Chairman of the Audit Committee is Mr. Chan Ngai Sang Kenny.

Remuneration Committee

We have established a Remuneration Committee with written terms of reference in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations to the Board regarding the remuneration package of our Directors and senior management and employee benefit arrangements, so as to ensure that the levels of remuneration and compensation are appropriate.

The Remuneration Committee comprises three members, namely Mr. Lee Kwan Hung and Mr. Guo Tianyong, who are independent non-executive Directors, and Mr. Zhang, chairman of our Board. The chairman of the Remuneration Committee is Mr. Lee Kwan Hung.

Nomination Committee

We have established a Nomination Committee with written terms of reference as recommended under the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The primary function of the nomination committee is to make recommendations to our Board on the appointment and removal of Directors.

The Nomination Committee consists of three members, namely Mr. Guo Tianyong and Mr. Chan Ngai Sang Kenny, who are independent non-executive Directors, and Mr. Zhang, chairman of our Board. The chairman of the Nomination Committee is Mr. Guo Tianyong.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

All our Directors receive reimbursements from us for expenses that are necessarily and reasonably incurred for providing services to us or in the execution of matters in relation to our operations. Our executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and contributions to the pension scheme according to PRC laws, details of which are set out in the paragraph headed "Employees – Welfare contributions" under the section headed "Business" in this prospectus.

The aggregate amount of remuneration (including fees, salaries, housing allowances, pension scheme contributions, other allowances, benefits-in-kind and discretionary bonuses) which were paid by us to our Directors for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May, 31, 2010, was approximately RMB74,000, RMB409,000, RMB404,000 and RMB168,000, respectively.

The aggregate amount of remuneration (including fees, salaries, housing allowances, pension scheme contributions, other allowances and benefits-in-kind and discretionary bonuses) which were paid by us to the five highest paid individuals of our Group, excluding the Directors, for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, was approximately RMB178,000, RMB144,000, RMB143,000 and RMB100,000, respectively.

Save as disclosed above, no other payments have been paid or are payable during the Track Record Period, by us or any of our subsidiaries to our Directors. It is estimated that under the current arrangements presently in force, the estimated amount of Directors' fees and other emoluments payable to the Directors for the year ending December 31, 2010 will be approximately RMB897,600.

EMPLOYEES

Employee Remuneration

We incurred staff costs (including our directors' emoluments) of approximately RMB4.6 million, RMB5.6 million, RMB6.2 million and RMB2.1 million for each of the years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, representing approximately 0.5%, 0.6%, 0.8% and 0.5% of our revenue, respectively, for those period.

We review the performance of our employees on an annual basis, the results of which are used in his or her annual remuneration and bonus review and promotion appraisal.

We believe we maintain a good working relationship with our employees. As at the Latest Practicable Date, we have not experienced any material labor disputes which adversely affected or were likely to have an adverse effect on the operations of our business or any difficulties in recruiting staff for our operations. Our employees are not covered by any collective bargaining agreement.

Staff Training

We believe the importance of employee development. Thus, we endeavor to provide training for our staff. Our on-the-job trainings aim to enhance our staff's technical skills and their knowledge of work safety standards.

SHARE OPTION SCHEME

Our Company has adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. In addition, in the case of the executive Directors and senior management of our

Group, the purpose is to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. A summary of the principal terms of the Share Option Scheme are set out in the section headed "Share Option Scheme" in Appendix VI to this prospectus.

COMPLIANCE ADVISER

We will appoint CCB International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The terms of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be extended by mutual agreement.

Controlling Shareholder

Immediately following completion of the Capitalization Issue and the Global Offering, Mr. Zhang will, through his shareholding in Apex Wide, own approximately 40.5% of the post offering enlarged issued share capital of our Company (assuming the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised) and hence will continue to be the Controlling Shareholder of our Company.

Apex Wide is a limited liability company incorporated in the BVI on July 20, 2009 and its sole shareholder, Mr. Zhang was brought up and has lived in the PRC for a substantial period of time.

To the best knowledge and belief of the Directors, Apex Wide is not a governmental body and Mr. Zhang is not and has not been a full time government official of a country for a substantial period of time nor a full time employee of a state/government-owned/operated entity for a substantial period of time.

Other Businesses of the Controlling Shareholder

As at the Latest Practicable Date, apart from his interest in our Group, Mr. Zhang also held approximately 39.2% of the equity interest in Shandong Jinpeng, but did not hold any directorship in Shandong Jinpeng or control the composition of a majority of the board of directors of Shandong Jinpeng.

The principal businesses of Shandong Jinpeng are the production and sale of copper cathode, oxygen free copper rod, copper-tubes, nonferrous metal casting, copper products and magnet wire, and are distinctly different and are not related to the businesses of our Group. As such, there is generally no competition between our Group's and Shandong Jinpeng's businesses. Mr. Zhang has confirmed that, as at the Latest Practicable Date, Shandong Jinpeng did not carry on or participate in any business which is or may be in competition with the businesses of our Group.

Mr. Zhang is not engaged in any other business which is or may be in competition with the businesses of our Group.

Independence of Our Group from the Controlling Shareholder

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from the Controlling Shareholder and his associates after the Global Offering.

Management Independence

Our Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. Mr. Zhang, our Controlling Shareholder, is the chairman of our Board and an executive Director.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interest of our Company and does not allow any conflicts between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, according to our Articles, the interested Director(s), unless required by a majority of our independent non-executive Directors, shall not attend or participate in the discussion of the relevant resolutions at the relevant board meetings of our Company, shall abstain from voting at the relevant resolutions in respect of such transactions and shall not be counted in the quorum.

In addition, we have an independent senior management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our senior management team is able to perform their roles in our Group independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

Operational Independence

Our major suppliers are all accessible independently from our Controlling Shareholders. We do not rely on our Controlling Shareholders or their associates for the provision of such raw materials.

We hold all relevant licenses and assets necessary to operate our businesses, and we have sufficient capital and employees to operate our business independently.

We also have independent access to our customers including PRC manufacturers of different industries such as chemicals, pharmaceutical and industrial electronics, which are independent from the Controlling Shareholders and their associates. Our Company independently manages its own sourcing, marketing, distribution and customer relationship operations, and does not rely on the Controlling Shareholders and their associates for access to customers.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. Our Directors confirm that as at the Latest Practicable Date, all financial assistance, including amounts due to, and loans or guarantees provided by our Controlling Shareholders to our Group, were repaid or released or otherwise settled in full. Therefore, there is no financial dependence on our Controlling Shareholders.

Non-competition Undertaking

Each of Mr. Zhang and Apex Wide has entered into the Deed of Non-competition Undertaking dated November 17, 2010 in favor of our Company, pursuant to which Mr. Zhang and Apex Wide have jointly and severally, unconditionally and irrevocably undertaken to our Company (for itself and for the benefit of its subsidiaries) that he or it

would not, and would procure that his or its affiliates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on his or its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in, acquire, hold, form partnerships or joint ventures in, or extend any loans to (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time.

Such non-competition undertaking does not apply where Mr. Zhang and Apex Wide or his or its affiliates has interests in the shares of a company whose shares are listed on a recognized stock exchange provided that:

(i) the total number of the shares held by Mr. Zhang and Apex Wide and/or their respective affiliates in aggregate does not exceed 5% of the issued shares of that class of the company in question and Mr. Zhang and Apex Wide and/or their respective affiliates are not entitled to appoint more than half of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company is more than the total number of shares held by Mr. Zhang and Apex Wide and their respective affiliates in aggregate; and

(ii) the total number of shares held by Mr. Zhang and Apex Wide and/or their respective affiliates shall not exceed 5% of the issued share capital of that company.

Under the Deed of Non-competition Undertaking, Mr. Zhang and Apex Wide further undertake to our Company that among other things:

(i) Mr. Zhang and Apex Wide shall allow, and shall procure that the relevant associates (excluding us) to allow, the Directors and auditors of the Company to review, at least on an annual basis, compliance of the deed of non-competition by Mr. Zhang and Apex Wide;

(ii) Mr. Zhang and Apex Wide shall provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the deed of non-competition;

(iii) our Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition either through the annual report, or by way of announcement to the public; and

(iv) Mr. Zhang and Apex Wide shall provide to our Company with a confirmation annually for inclusion by our Company in its annual report, in respect of their compliance with the terms of the deed of non-competition.

The "restricted period" stated in the deed of non-competition refers to the period commencing from the date of the deed of non-competition and shall expire on the earlier of (i) the first anniversary of the date on which Mr. Zhang and Apex Wide and his or its affiliates cease to have any interest in the issued share capital of our Company; (ii) the date on which the Shares cease to be listed on the Stock Exchange; and (iii) the date on which Mr. Zhang and Apex Wide individually or jointly cease to (a) exercise or control 30% or more of the voting rights at shareholders' meetings of, or (b) be the single largest shareholder of, the Company.

All Directors confirmed that they do not engage in any business which competes, or is likely to compete, directly or indirectly, with our Company's business.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalization Issue, the Global Offering, the exchange of the September 2009 Exchangeable Notes by IAM and the exchange of the November 2009 Exchangeable Notes by CCAM and CIG (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme), the following persons will have beneficial interests or short positions in any Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Apex Wide[(1)]	Beneficial owner/ Long position	473,850,000	40.5%
Mr. Zhang[(2)]	Interest of a controlled corporation/ Long position	473,850,000	40.5%
IAM[(3)]	Beneficial owner/ Long position	122,850,000	10.5%
Mr. Yam Tak Cheung[(4)]	Interest of a controlled corporation/ Long position	122,850,000	10.5%
Sun Ascent[(5)]	Beneficial owner/ Long position	78,975,000	6.75%
Mr. Qin Kebo[(6)]	Interest of a controlled corporation/ Long position	78,975,000	6.75%
CCAM [(7)]	Beneficial owner/ Long position	70,200,000	6.0%
Well Kent[(7)]	Interest of a controlled corporation/Long position	70,200,000	6.0%
China Cinda [(7)]	Interest of a controlled corporation/ Long position	70,200,000	6.0%

Notes:

(1) The entire issued share capital of Apex Wide is legally and beneficially owned by Mr. Zhang.

(2) Mr. Zhang is interested in the entire issued share capital of Apex Wide and is therefore deemed to be interested in the 473,850,000 Shares which Apex Wide will hold upon Listing.

(3) The entire issued share capital of IAM is legally and beneficially owned by Mr. Yam Tak Cheung.

(4) Mr. Yam Tak Cheung is interested in the entire issued share capital of IAM and is therefore deemed to be interested in the 122,850,000 Shares which IAM will hold upon Listing.

(5) The entire issued share capital of Sun Ascent is legally and beneficially owned by Mr. Qin Kebo, a non-executive Director.

(6) Mr. Qin Kebo is interested in the entire issued share capital of Sun Ascent and is therefore deemed to be interested in the 78,975,000 Shares which Sun Ascent will hold upon Listing.

(7) The entire issued share capital of CCAM is legally and beneficially owned by Well Kent, which in turn is wholly owned by China Cinda. As such, each of Well Kent and China Cinda is deemed to be interested in the 70,200,000 Shares which CCAM will hold upon Listing.

Save as disclosed above, our Directors are not aware of any other person who will, immediately following completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme), have beneficial interests or short positions in any Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of our authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering:

	HK$
Authorized share capital:	
2,000,000,000 Shares of HK$0.01 each	20,000,000
Issued share capital as at the date of this prospectus:	
200 Shares of HK$0.01 each	2
Shares to be issued pursuant to the Capitalization Issue	
877,499,800 Shares of HK$0.01 each	8,774,998
Shares to be issued pursuant to the Global Offering:	
292,500,000 Shares of HK$0.01 each	2,925,000
Total issued Shares on completion of the Global Offering	
1,170,000,000 Shares of HK$0.01 each	11,700,000

ASSUMPTIONS

The table above assumes that the Global Offering becomes unconditional and will be completed in accordance with the relevant terms and conditions. It takes no account of (a) any of the new Shares which may be issued upon the exercise of the Over-allotment Option; (b) any Shares to be allotted and issued upon exercise of options which may be granted under our Share Option Scheme; (c) any Shares which may be issued under the general mandate given to our Directors for the issue and allotment of Shares; or (d) any Shares which may be repurchased by us pursuant to the general mandate given to our Directors for the repurchase of Shares.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the paragraph headed "Conditions of the Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of: (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme); and (ii) the aggregate nominal value of the share capital of our Company repurchased by us (if any).

This general mandate to issue Shares will expire:

(i) at the end of our next annual general meeting;

(ii) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

For further details of this general mandate, please refer to the paragraph headed "Resolutions in writing of all our Shareholders passed on November 16, 2010" under the section headed "Further information about our Company and its subsidiaries" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the paragraph headed "Conditions of the Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus, our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme).

This general mandate only relates to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Repurchase of our Shares" under the section headed "Further information about our Company and its subsidiaries" in Appendix VI to this prospectus.

This general mandate to repurchase Shares will expire:

(i) at the end of our next annual general meeting;

(ii) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes in Appendix I to this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We were the second largest BDO producer in China in terms of domestic sales volume in 2009 with a market share of approximately 16.0%, according to the Huajing Report prepared by Beijing Huajing, an independent economic information research institution. We also produce GBL and THF, which are immediate downstream derivative products of BDO. We ranked fifth in China in terms of total designed BDO production capacity in 2009, according to the Huajing Report.

In view of China's growing market for biodegradable materials and leveraging on our existing expertise in BDO production, we intend to expand downstream into BDO-based biodegradable PBS and PBS copolymers production and apply approximately 10% of the net proceeds from the Global Offering to construct the first phase of our PBS production facilities. Please refer to the paragraph headed "Our strategies" under the section headed "Business" in this prospectus for further details. PBS and PBS copolymers are relatively new materials in China and our Group has no historical track record in their production. While we are confident of our PBS expansion plan, there is no assurance that we will be able to produce PBS and PBS copolymers on a commercial scale or at all. (Please also refer to the section headed "Risk factors" in this prospectus).

BDO, our primary product, is an essential chemical intermediate used in the production of high performance polymers, solvents and fine chemicals, which are widely used in the automotive, electronics, construction and apparel industries. GBL has a wide range of applications, including cosmetics, hair sprays, germicides, tablet binders and process aids in beverage clarification. THF is mainly used as a precursor to polymers and is often used to produce PTMEG, which in turn is a reactant for making other polymers.

During the Track Record Period, we sold our BDO, GBL and THF products principally to PRC manufacturers of different industries such as chemicals, pharmaceutical and industrial electronics, which are primarily located in the Eastern region of China. We believe this direct sales model, compared to a distributorship sales model, allows us to obtain first-hand market information directly from these customers and helps us to build long-term and close customer relationships. During the Track Record Period, we did not sell our BDO, GBL and THF products to any manufacturer of PBS or PBS copolymers. Additionally, we have neither directly exported our products nor, to our knowledge, have we sold our products to customers who in turn re-sell and export our products without further processing.

We are the first among the current BDO producers in China to employ the DAVY Process, according to the Huajing Report. The DAVY Process, which uses maleic anhydride as the principal raw material, is more advanced and cost efficient than the traditional REPPE Process, which uses acetylene and formaldehyde as the principal raw material. The DAVY Process allows us to produce high-graded BDO with a higher purity level than the national standard generally adhered by BDO manufacturers adopting the REPPE Process. The DAVY Process also co-produces GBL and THF, two of our major products, and allows us to adjust the mix among our three products to enhance the flexibility in fulfilling the customers' orders.

Our current production facilities are located in Dongying, Shandong province, close to our raw material suppliers and most of our major customers. In particular, our current production facilities are adjacent to Sinopec Shengli Oilfield Branch Petrochemical Factory* (中國石化勝利油田分公司石油化工總廠) ("**Sinopec Shengli**"), China's second largest oil field complex, which supplies to us raw materials including hydrogen and n-butane through pipelines. Our proximity to and long-term relationship with Sinopec Shengli provide us with a convenient supply of principal raw materials and a cost advantage over many of our foreign and domestic competitors. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, our purchases from Sinopec Shengli accounted for approximately 11.3%, 9.9%, 12.7% and 32.3% of our total purchases, respectively. As at the Latest Practicable Date, our Dongying BDO production facility had a designed BDO production capacity of approximately 35,000 tpa, a designed GBL production capacity of approximately 17,000 tpa and a designed THF production capacity of approximately 5,000 tpa.

We derive substantially all of our revenue from sales of BDO, GBL and THF. Our revenue was approximately RMB882.7 million, RMB883.3 million, RMB745.4 million and RMB383.9 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. Our net profit was approximately RMB146.1 million, RMB133.9 million, RMB172.1 million and RMB96.9 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Our current production facility is located in Dongying, Shandong province and as at the Latest Practicable Date, it had a designed BDO production capacity of approximately 35,000 tpa, a designed GBL production capacity of approximately 17,000 tpa and a designed THF production capacity of approximately 5,000 tpa.

Our principal business development strategy is to leverage our BDO production capabilities and expand into China's growing biodegradable materials market. Since 2008, we have devoted resources in exploring the market and the commercialization potential of BDO-based biodegradable PBS and PBS copolymer products. PBS and PBS copolymers are fully biodegradable macromolecular polymers that are synthesized from succinic acid/binary acid and BDO through a process of condensation polymerization. Due to the comparatively superior characteristics in mechanical properties, processability and heat resistance over other types of biodegradable polymers, PBS and PBS copolymers can be used in a wide range of applications, such as packaging materials, food containers, mulch film, packaging films, bags, disposable medical devices, hygiene products and textiles. In

this connection, we entered into a letter of intent with IPCCAS in July 2009 for the licensing of its patented IPCCAS Direct Polycondensation Process to construct a 20,000 tpa PBS production facility, as well as setting up a joint research laboratory to research into new PBS formulations and potential applications. Subsequently in December 2009, we entered into a formal technology licensing agreement with IPCCAS (which was supplemented by a supplemental licensing agreement dated October 29, 2010), under which we were granted a non-exclusive license (which is one-off in nature with no time limit) to use the relevant PBS resin polymerization technologies in our PBS production facilities and a 500-liter PBS laboratory facility adopting the IPCCAS Direct Polycondensation Process. In May 2010, we further entered into a technology cooperation agreement with Sichuan University for an initial period of five years to collaborate into areas including (without limitation) PBS downstream product development, production technology support and research staff training. Since then, we have established a PBS research team in Zibo of Shandong province collaborating with IPCCAS and the Polymer Research Institute* (高分子研究所) and the State Key Laboratory of Polymer Materials Engineering* (高分子材料工程國家重點實驗室) of Sichuan University. We are close to completing the construction of a 500-liter PBS laboratory facility which would be used for testing formulations for and trial production of various types of PBS and PBS copolymer downstream products. The PBS laboratory facility is scheduled to be completed by end of November 2010 and put into operation by December 2010. We also commenced construction of two PBS production lines with designed production capacity of 5,000 tpa and 20,000 tpa, being the first phase of our three-phase PBS production capacity expansion plan, which is currently expected to be completed by June 2011 and September 2011, respectively. As at the Latest Practicable Date, we had entered into non-legally binding letters of intent, valid up to December 31, 2013, with several Independent Third Party PRC manufacturers of medical supplies, packaging and hygienic disposables for intended PBS and PBS copolymers orders totaling over 17,000 tons per annum.

To support our planned expansion into the production of PBS and PBS copolymers, which are currently in our product development pipeline, and to serve the growing demand for high-graded BDO and its derivative products in China, we plan to expand our BDO production capacity significantly by constructing a new, 55,000 tpa BDO production facility, to be housed alongside our planned PBS production facilities, in our new Zibo production base. This new BDO production facility, which is under construction and currently scheduled to be completed by June 2011, will employ the newest, fourth-generation DAVY Process with designed BDO, GBL and THF production capacity of approximately 46,800 tpa, 6,600 tpa and 1,600 tpa, respectively.

In addition to the above core production facilities, our Zibo production base will also house various ancillary facilities such as office buildings, staff canteen, warehouses and a waste water treatment facility.

We believe that our expanded BDO production capacity would enable us to enjoy greater flexibility in adjusting our production and sales mix to meet market demands, while controlling our costs through internal BDO consumption and external BDO sales. It is our intention that upon commencement of our PBS and PBS copolymers production, we will prioritize the use of our BDO produced by first satisfying our internal production requirement of PBS and PBS copolymers. According to our research and development

progress to date, it is estimated that the consumption ratio of BDO in PBS production should be around 0.4-0.5 ton of BDO for each ton of PBS and/or PBS copolymers. On such basis, depending on the then prevailing demand for our PBS and PBS copolymer products, we expect our internal BDO consumption will increase as a percentage of our total BDO production as we expand our PBS production capacity in accordance with our expansion plan. (For purpose of illustration, if all three phases of our PBS production facilities are operating at full capacity, then based on the currently estimated consumption ratio of BDO to PBS, around half of the aggregate designed production capacity of our two BDO production facilities (inclusive of BDO, GBL and THF) will be utilized for producing internally consumed BDO, while the remaining production capacity will be utilized for producing BDO, GBL and THF for external sales to the market.) We also expect our revenue from PBS and PBS copolymer products will increase both in absolute terms and as a percentage of our total revenue in the future when our PBS expansion plan is successfully implemented.

KEY FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Market demand for BDO and its derivative products

BDO is our primary product. Sales of BDO represented approximately 55.4%, 59.9%, 55.6% and 54.6% of our revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. Demand for BDO is primarily driven by the demand for BDO derivative products and the development of new downstream products and applications. In the past few years, leveraged on the rapid development of downstream chemicals such as PBT, PU, PTMEG, THF and GBL, the BDO market has experienced a significant growth. During the Track Record Period, we estimate that about half of our BDO products were eventually used by the PU fiber industry with the rest by the electronic industry, pesticide industry and pharmaceutical industry and other industries. PU fiber is primarily used to produce elastic materials, which are widely used as raw materials of various types of shoes and apparel.

BDO is also a principal feedstock in the manufacture of PBS and PBS copolymers, which are used to produce various biodegradable plastic products. We expect to complete the construction of the two production lines of PBS by June 2011 and September 2011, respectively, each of which would have a production capacity of 5,000 tpa and 20,000 tpa. According to Freedonia, a majority of PBS is used to produce disposables in the foodservice industry with the remaining used to produce disposable packaging materials and other disposable products. Freedonia also expects that the use of PBS in medical products will start to grow from 2011.

According to the Huajing Report, the demand for and production of BDO in China increased at a CAGR of 15.6% and 42.5%, respectively, from 2005 to 2009. Despite the significant growth in BDO production in the past few years, domestically produced BDO still cannot fully satisfy the demand for BDO in China. With the substantial increase in domestic production of BDO, BDO imports gradually fell in the past few years from approximately 82,000 tons in 2005 to approximately 59,000 tons in 2009.

GBL is our second largest product in terms of revenue. Sales of GBL represented approximately 27.2%, 27.6%, 29.7% and 29.4% of our revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. According to the Huajing Report, GBL is primarily used as an intermediary for the production of agrochemicals and pharmaceuticals. During the Track Record Period, we estimate that about one-third of our GBL were sold to the pharmaceutical industry and the rest to the PU industry, pesticide industry, electronics industry and other industries.

THF is our smallest product in terms of revenue. Sales of THF represented approximately 17.4%, 12.5%, 14.7% and 16.0% of our revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. THF is mainly used as a precursor to produce other polymers. According to the Huajing Report, the production of THF accounted for approximately 41.2% of total BDO consumption in China in 2009, being the largest end use product of BDO.

Any adverse change in the market demand for BDO derivative products and the development of new downstream BDO derivative products or applications may have a material and adverse impact on the demand for BDO. Our results of operations have depended in the past and will continue to depend in the near future, on our sales of BDO and its derivative products such as GBL and THF and, in the long run, will be affected by our sales of PBS and PBS copolymers.

Pricing of our products

The selling prices for our BDO and its derivative products are primarily determined by prevailing market prices, which, in turn, are primarily determined by demand and supply in the global and domestic markets for our products, the prices set by our competitors and our ability to identify new markets for our products. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, the average selling price for our BDO was RMB16,712 per ton, RMB15,085 per ton, RMB11,866 per ton and RMB14,387 per ton, respectively.

We generally are able to market our BDO products at prices higher than the prevailing industry average prices in the PRC, which our Directors believe is attributable to, among other factors, our ability to produce BDO by the DAVY Process at a higher purity level than the PRC national standard, in large volume with consistent quality and timely delivery. In determining prices for individual orders, we also take into account customer specifications, lead times, transportation costs and quantities ordered.

Some of our domestic competitors have increased, and some have announced plan to increase, their production capacities. The increases in domestic production capacities will increase the market supply of our products. If market supply of our products increases without a corresponding increase in demand, the market price of our products may decrease, reducing our profit margins. In the past, we also faced competition from imported products. In recent years, some producers from Saudi Arabia and Taiwan sold BDO at low prices to China which led to the decline in BDO average sales price in China. During the global financial crisis in late 2008 when the demand for BDO and its derivative

products in the international market was low, we experienced increased competition from imported BDO and its derivative products from international market. The selling price of our products in China may continue to be affected by the changes in production capacities and pricing strategies of domestic competitors, export activities of alternative competitors in China as well as the measures taken by the PRC government, which may have an impact on our profitability and financial condition.

Pricing of our raw materials and other materials

Maleic anhydride, methanol and hydrogen are the principal raw materials used in the production of BDO and its derivative products. We also started to use n-butane as raw materials to produce maleic anhydride in 2009. Our cost of raw materials represents a substantial portion of our cost of sales. For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, the total cost of raw materials accounted for approximately 85.1%, 85.3%, 76.6% and 88.4% of our total cost of sales, respectively. Our cost of maleic anhydride represents a substantial portion of our cost of raw materials, which accounted for approximately 76.5%, 76.8%, 66.6% and 77.7% of our total cost of sales for the years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Our average cost of raw materials generally correlates with the prevailing market price of maleic anhydride, as maleic anhydride is the principal raw material used in the production of our BDO and its derivative products. The market price for maleic anhydride has been highly volatile during the Track Record Period. Our average unit purchase price of maleic anhydride was RMB9,367.1 per ton for the year ended December 31, 2007. It decreased to RMB8,292.2 per ton for the year ended December 31, 2008 and further decreased to RMB4,811.5 per ton for the year ended December 31, 2009. Our average unit purchase price of maleic anhydride rebounded to RMB6,759 per ton for the five months ended May 31, 2010. The change in the market price for maleic anhydride was primarily affected by the domestic production capacity of maleic anhydride, the domestic and international demand of maleic anhydride, the market price of coal, which is one of the main raw materials of maleic anhydride, and the overall domestic and international economic conditions. During the global financial crisis, the domestic and international demand for maleic anhydride decreased substantially, causing the price of maleic anhydride to decrease substantially in 2009. The recovery of the economy from the global financial crisis starting from late 2009 caused the price of maleic anhydride to increase in 2010. For the year ended December 31, 2009, our gross profit margin increased despite a decrease in our average selling price of BDO mainly due to a more significant decrease in the average cost of maleic anhydride in the same period. In the event that our average selling price of BDO decreases to a greater extent than the average cost of maleic anhydride or when we are unable to pass a price increase of raw material and other materials on to our customers at all or in a timely manner, our profit margin may decrease.

In an effort to hedge the market price risk of maleic anhydride, to capture cost benefits and to ensure that we have a constant supply of high-quality maleic anhydride at competitive prices, we commenced in-house production of maleic anhydride in December 2009 by using n-butane, which is primarily derived from petroleum. As maleic anhydride is primarily made by benzene, which is derived from coal, prices of maleic anhydride in

China have been low and supplies have been abundant. Accordingly, we may not be able to capture cost benefits from producing maleic anhydride in-house currently. We currently source n-butane mainly from one supplier through pipelines connected to our production facility. If this supplier is unable to supply us with the quality and quantity of n-butane required for our production, we may incur additional costs to secure an alternative source. If we are unable to pass on those costs to our customers, our results of operations and financial condition may be adversely affected.

Our expertise and know-how in employing DAVY Process

We are the first among the current BDO producers in the PRC to employ DAVY Process in producing BDO, according to the Huajing Report. The DAVY Process is considered more advanced and cost efficient than the traditional REPPE Process, which to date is still widely used among China's BDO manufacturers. While we are aware that a few of our competitors have recently migrated to or constructed new BDO production facilities adopting the DAVY Process, we believe our accumulated expertise and know-how in employing the DAVY Process early on for our BDO production enable us to operate our BDO production facilities at high efficiency and produce BDO at a higher purity level than the PRC national standard, and gives us a competitive advantage over these competitors.

Expansion of our production capacity for BDO, GBL, THF, PBS and PBS copolymers

We are constructing a BDO production facility in Zibo, Shandong province, which is expected to increase our designed BDO, GBL and THF production capacity to approximately 81,800 tpa, 23,600 tpa and 6,600 tpa, respectively, upon its scheduled completion by June 2011. In addition, as it is our principal business development strategy to leverage our BDO production capabilities and expand into China's growing biodegradable materials market, we commenced construction of two PBS production lines with designed production capacity of 5,000 tpa and 20,000 tpa, being the first phase of our three-phase PBS production capacity expansion plan, which is currently expected to be completed by June 2011 and September 2011, respectively. According to our expansion plan, we intend to further expand our PBS production capacity by an aggregate of 100,000 tpa through the construction of two additional PBS production lines, each with a designed production capacity of 50,000 tpa, under two additional phases. We currently intend to commence construction of the first 50,000 tpa PBS production facility in or around early 2012 depending on the then market response to our PBS and PBS copolymer products from our first phase of PBS production facilities. According to our preliminary construction schedule, this 50,000 tpa second phase PBS production facility shall take around eight months to construct. Depending on the then utilization rates of our first and second phases of PBS production facilities, we may commence construction of a third phase PBS production facility with a designed production capacity of 50,000 tpa as early as 2013. As we expect our revenue from PBS and PBS copolymer products to increase both in absolute terms and as a percentage of our total revenue in the future, our results of operations will also depend on our ability to successfully produce and market our PBS and PBS copolymers, which in turn will depend on factors such as PRC government policies on biodegradable plastic materials and development of commercially viable PBS and PBS copolymer downstream products and applications.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

We prepare our financial statements in conformity with IFRS, which requires us to make estimates and assumptions that affect our reporting of, among other things, assets and liabilities, contingent assets and liabilities, net revenue and expenses. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and other factors that we believe to be relevant under the circumstances. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management's judgment.

Property, plant and equipment and depreciation

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

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

	Estimated useful lives	Residual values
• Buildings	30 years	0%
• Plant and machinery	12-20 years	5%
• Motor vehicles	10 years	5%
• Furniture, fixtures and office equipment	5 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each statement of financial position date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably, on the following bases:

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

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

Impairment of non-financial assets other than goodwill

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials/Parts and consumables	Purchase cost on the weighted average basis
Finished goods	Cost of direct materials and labour and an appropriate proportion of overheads

Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the financial position date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Estimation uncertainty

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

(1) Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management's judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, and the amount of doubtful debt expenses or write-back of provision trade receivables in the period in which such estimate has been changed.

(2) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed before in the sub-paragraph headed "Impairment of non-financial assets other than goodwill" in this paragraph headed "Critical accounting policies, estimates and assumptions". The recoverable amount of an asset, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(3) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

(4) Net realizable value of inventories

Net realizable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

(5) Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(6) Income tax provisions

Significant judgment is required in determining the provision for corporate income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

SUMMARY OF RESULTS OF OPERATIONS

The following table sets out our consolidated statements of comprehensive income and other selected financial information for the periods indicated.

	Year ended December 31,			Five months ended May 31,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	882,669	883,298	745,363	272,684	383,901
Cost of sales	(694,844)	(695,855)	(485,941)	(176,400)	(249,037)
Gross profit	187,825	187,443	259,422	96,284	134,864
Other income and gains	3,357	4,234	1,736	205	11,070
Selling and distribution costs	(13,440)	(15,237)	(15,870)	(6,340)	(6,361)
Administrative expenses	(8,423)	(13,910)	(12,595)	(1,886)	(6,380)
Other expense	–	–	–	–	(657)
Finance costs	(2,871)	(7,941)	(2,096)	–	(2,450)
PROFIT BEFORE TAX	166,448	154,589	230,597	88,263	130,086
Income tax expense	(20,332)	(20,681)	(58,515)	(22,233)	(33,155)
PROFIT FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	146,116	133,908	172,082	66,030	96,931
Profit for the year/period and total comprehensive income for the year/period attributable to:					
Equity holders of the Company	129,014	133,908	172,082	66,030	96,931
Non-controlling interests	17,102	–	–	–	–
	146,116	133,908	172,082	66,030	96,931

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

The following table sets forth our revenue, the average selling price and the sales volume by product during the Track Record Period:

	Year ended December 31,												Five months ended May 31,							
	2007				2008				2009				2009				2010			
	Revenue		Sales Volume	Average Selling Price	Revenue		Sales Volume	Average Selling Price	Revenue		Sales Volume	Average Selling Price	Revenue		Sales Volume	Average Selling Price	Revenue		Sales Volume	Average Selling Price
	RMB'000	*%*	*tons*	*RMB/ton*	*RMB'000*	*%*	*tons*	*RMB/ton*	*RMB'000*	*%*	*tons*	*RMB/ton*	*RMB'000*	*%*	*tons*	*RMB/ton*	*RMB'000*	*%*	*tons*	*RMB/ton*
BDO	489,036	55.4	29,263	16,712	529,475	59.9	35,099	15,085	414,741	55.6	34,952	11,866	160,053	58.7	14,034	11,405	209,486	54.6	14,561	14,387
GBL	240,209	27.2	12,470	19,263	243,986	27.6	14,905	16,369	221,696	29.7	15,780	14,049	77,373	28.4	5,632	13,738	112,875	29.4	7,016	16,088
THF	153,424	17.4	6,581	23,313	109,837	12.5	5,431	20,224	108,926	14.7	6,716	16,219	35,258	12.9	2,139	16,483	61,540	16.0	3,435	17,916
Total	882,669	100.0	48,314		883,298	100.0	55,435		745,363	100.0	57,448		272,684	100.0	21,805	12,506	383,901	100.0	25,012	15,349

During the Track Record Period, our revenue represented the net invoiced value of goods sold to customers net of value-added tax and other sales taxes, after allowances for returns and discounts. During the Track Record Period, we derived all of our revenue from sales of BDO and its derivative products, GBL and THF. Our revenue for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010 were approximately RMB882.7 million, RMB883.3 million, RMB745.4 million and RMB383.9 million, respectively.

Our total revenue fluctuated during the Track Record Period as a result of a combined effect of the changes in our sales volume, average selling price and our product mix. Our revenue increased slightly by approximately 0.1% from RMB882.7 million for the year ended December 31, 2007 to RMB883.3 million for the year ended December 31, 2008 primarily due to the increases in our sales volume of BDO and GBL to meet the increasing market demand, offset in part by decreases in our average selling prices of BDO, GBL and THF and the decrease in our sales volume of THF. Our revenue decreased by approximately 15.6% from RMB883.3 million for the year ended December 31, 2008 to RMB745.4 million for the year ended December 31, 2009, primarily due to decreases in average selling prices of BDO, GBL and THF as a result of global financial crisis in late 2008 and throughout 2009, partially offset by the increase in our overall sales volume. Our revenue increased by approximately 40.8% from RMB272.7 million for the five months ended May 31, 2009 to RMB383.9 million, primarily due to increases in average selling prices and sales volume of BDO, GBL and THF which the Directors consider were mainly driven by an increase in demand for BDO and its derivative products as a result of global economic recovery.

Cost of sales

The following table sets forth our cost of sales by item and as a percentage of our total cost of sales for the periods indicated:

	Year Ended December 31,						Five months ended May 31,			
	2007		2008		2009		2009		2010	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw materials										
– maleic anhydride[(1)]	531,718	76.5	534,101	76.8	323,753	66.6	114,799	65.1	193,545	77.7
– hydrogen	54,433	7.8	52,378	7.5	33,783	7.0	20,746	11.8	24,021	9.6
– methanol	5,873	0.8	6,998	1.0	14,775	3.0	2,219	1.3	2,507	1.1
	592,024	85.1	593,477	85.3	372,311	76.6	137,764	78.1	220,073	88.4
Other materials and utilities										
– catalysts	39,186	5.6	40,503	5.8	44,442	9.1	13,364	7.6	10,453	4.2
– steam	10,358	1.5	10,478	1.5	12,430	2.6	4,161	2.4	–	–
– electricity	16,639	2.4	16,085	2.3	19,291	4.0	6,227	3.5	7,189	2.9
– water	7,776	1.1	4,743	0.7	3,510	0.7	1,865	1.1	104	0.0
– others[(2)]	15,563	2.3	16,394	2.4	17,482	3.6	6,785	3.8	1,424	0.6
	89,522	12.9	88,203	12.7	97,155	20.0	32,402	18.4	19,170	7.7
Depreciation	9,958	1.4	10,377	1.5	11,962	2.5	4,503	2.6	8,574	3.4
Payroll	3,340	0.6	3,798	0.5	4,513	0.9	1,731	0.9	1,220	0.5
Cost of sales:	694,844	100.0	695,855	100.0	485,941	100.0	176,400	100.0	249,037	100.0

Notes:

(1) Cost of maleic anhydride included cost of n-butane, the principal raw material used in the production of maleic anhydride

(2) Others included nitrogen, chemical filters, spare parts and other consumables

During the Track Record Period, our cost of sales primarily consisted of cost of raw materials used in our production process, including maleic anhydride, methanol, hydrogen and n-butane. Our cost of sales also included expense for catalysts, steam, electricity, water and others, as well as depreciation and payroll for personnel directly involved in the production activities. Our total cost of sales amounted to approximately RMB694.8 million, RMB695.9 million, RMB485.9 million and RMB249.0 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively, representing 78.7%, 78.8%, 65.2% and 64.9% of our revenue for each respective period.

Cost of maleic anhydride was the main component of our cost of sales, which accounted for approximately 76.5%, 76.8%, 66.6% and 77.7% at our total cost of sales for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively. Other materials and utilities costs, such as the costs for catalysts, steam, electricity, water and others, were also a key component of our costs of sales, representing 12.9%, 12.7%, 20.0% and 7.7% of our total costs of sales for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Our cost of sales increased slightly from RMB694.8 million for the year ended December 31, 2007 to RMB695.9 million for the year ended December 31, 2008, primarily due to an increase in our sales volume, offset in part by a decrease in our average unit purchase price of maleic anhydride from RMB9,367.1 per ton for the year ended December 31, 2007 to RMB8,292.2 per ton for the year ended December 31, 2008. Our cost of sales decreased from RMB695.9 million for the year ended December 31, 2008 to RMB485.9 million for the year ended December 31, 2009, primarily due to a significant decrease in the average unit purchase price of maleic anhydride as a result of global financial crisis in late 2008 and 2009. Our cost of sales increased from RMB176.4 million for the five months ended May 31, 2009 to RMB249.0 million for the five months ended May 31, 2010, primarily due to an increase in sales volume of our products and an increase in average unit purchase price of maleic anhydride as a result of the global economic recovery. The average unit purchase price of maleic anhydride decreased significantly from RMB8,292.2 per ton for the year ended December 31, 2008 to RMB4,811.5 per ton for the year ended December 31, 2009 and rebounded to RMB6,759 per ton for the five months ended May 31, 2010 as a result of global economic recovery.

We expect our total cost of sales, including our raw material costs, to continue to increase as we expand our BDO production capacity and commence our PBS and PBS copolymer production, although such effect may be partially offset as we expect to achieve economy of scale and obtain volume discounts associated with larger volume of purchases of raw materials.

Gross profit and gross profit margin

The following table sets forth the gross profit and gross profit margins of our BDO, GBL and THF for the periods indicated:

	Year ended December 31,						Five months ended May 31,			
	2007		2008		2009		2009		2010	
	Gross profit RMB'000	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross Profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*
BDO	87,944	18.0	105,161	19.9	131,666	31.7	50,578	31.6	70,555	33.7
GBL	60,486	25.2	54,744	22.4	86,998	39.2	31,277	40.4	43,374	38.4
THF	39,395	25.7	27,538	25.1	40,758	37.4	14,428	40.9	20,935	34.0
Overall	187,825	21.3	187,443	21.2	259,422	34.8	96,283	35.3	134,864	35.1

For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, our gross profit was RMB187.8 million, RMB187.4 million, RMB259.4 million and RMB134.9 million, respectively, and our gross profit margin was 21.3%, 21.2%, 34.8% and 35.1%, respectively. Our gross profit decreased slightly from RMB187.8 million for the year ended December 31, 2007 to RMB187.4 million for the year ended December 31, 2008, primarily due to the decreases in our gross profit derived from THF and GBL by approximately 30.1% and 9.5%, respectively, the effect of which was substantially offset by an increase of 19.6% in our gross profit derived from BDO. Our gross profit increased from RMB187.4 million for the year ended December 31, 2008 to RMB259.4 million for the year ended December 31, 2009, primarily due to the decrease in the average unit purchase price of maleic anhydride, which outpaced the decrease in the average selling price of our products from the year ended December 31, 2008 to December 31, 2009.

Changes in our overall gross profit margin from period to period were primarily driven by the changes in the average selling price of our different products, the changes in the average purchase price of raw materials used in our products sold, and our product mix. Our overall gross profit margins for the years ended December 31, 2007 and 2008 were about the same, which were 21.3% and 21.2%, respectively. This is primarily because the average selling prices of our products decreased in line with the decrease of the average unit purchase prices of our raw materials. We enjoyed enhanced gross profit margins from the year ended December 31, 2008 to the year ended December 31, 2009 in large part due to a significant decrease in the average purchase price of maleic anhydride, (the principal raw material used in the production of our BDO and its derivative products), as a result of global financial crisis in late 2008 and throughout 2009, which outpaced the decrease in the average selling price of our products during the same period.

Generally, our GBL and THF were higher margin products compared with BDO. We had achieved an increasing trend on the gross profit margin of our BDO during the Track Record Period primarily because the average unit purchase price of maleic anhydride decreased more significantly than the decrease of the average selling price of BDO from 2007 to 2008 and from 2008 to 2009. The gross profit margins of both GBL and THF decreased slightly from 2007 to 2008 and increased in the year ended December 31, 2009, primarily because the average selling prices of our GBL and THF decreased more significantly than the decreases in the average unit purchase prices of maleic anhydride from 2007 to 2008 and they decreased less significantly from 2008 to 2009 as compared with the decrease in the average unit purchase prices of maleic anhydride.

We believe we achieved a relatively higher level of gross profit margin comparing to some of our competitors in the PRC primarily due to, among other factors, our early adoption of the more advanced and cost efficient DAVY Process which enabled us to accumulate substantial expertise and know-how to operate our BDO production facilities at high efficiency and produce BDO at a higher purity level than the PRC national standard, and price our BDO products at a premium to the prevailing industry average prices. In addition, the DAVY Process uses maleic anhydride as the principal raw material, which is cheaper and more readily available than the principal raw material used in the REPPE Process, which is still widely adopted in the PRC by BDO producers. As such, the average cost of raw materials for BDO produced through DAVY Process is generally lower than that produced through the traditional REPPE Process.

Other income and gains

Other income and gains accounted for 0.4%, 0.5% and 0.2% of our total revenue for each of the three years ended December 31, 2007, 2008 and 2009, respectively. Other income and gains accounted for 0.1% and 2.9% for each of the five months ended May 31, 2009 and 2010, respectively. Other income and gains consisted primarily of foreign currency exchange gains from our payables to the Previous Potential Investor in respect of its investment denominated in Hong Kong dollars, interest income from our bank deposits and government subsidy.

Our other income and gains increased from RMB3.4 million for the year ended December 31, 2007 to RMB4.2 million for the year ended December 31, 2008. This increase was primarily due to an increase in our foreign currency exchange gains from approximately RMB2.7 million in 2007 to RMB3.5 million in 2008, in relation to certain other payables denominated in Hong Kong dollars due to the Previous Potential Investor as a result of the further appreciation of Renminbi against the Hong Kong dollar during the year ended December 31, 2008. Our other income and gains decreased from RMB4.2 million for the year ended December 31, 2008 to RMB1.7 million for the year ended December 31, 2009, primarily because the other payables due to the Previous Potential Investor were fully repaid during 2008, resulting in no exchange difference for the year ended December 31, 2009 and thus no foreign currency exchange gain was recorded. We derived steam from our production process of maleic anhydride and started to sell steam from December 2009, which contributed approximately RMB0.8 million and RMB9.3 million to our other income and gains for the year ended December 31, 2009 and the five months ended May 31, 2010, respectively.

Selling and distribution costs

Selling and distribution costs accounted for 1.5%, 1.7% and 2.1% of our total revenue for each of the three years ended December 31, 2007, 2008 and 2009, respectively. Our selling and distribution costs consisted primarily of freight charges, salary and benefits for our sales personnel and other miscellaneous items related to sales and distribution. We transport our products primarily by road as most of our customers are close to us geographically. Generally, we are responsible for delivery costs of our products. Our selling and distribution costs were RMB13.4 million, RMB15.2 million and RMB15.9 million during the three years ended December 31, 2007, 2008 and 2009, respectively. Our selling and distribution costs were RMB6.3 million and RMB6.4 million, accounting for 2.3% and 1.7% of our total revenue for each of the five months ended May 31, 2009 and 2010, respectively. Selling and distribution costs remained stable from the five months ended May 31, 2009 to the five months ended May 31, 2010 despite an increase in revenue and sales volume. This was primarily because there were less customers located relatively far away from us and we incurred less transportation expenses accordingly.

Administrative expenses

Administrative expenses accounted for 1.0%, 1.5% and 1.6% of our total revenue for each of the three years ended December 31, 2007 and 2008 and 2009, respectively. Administrative expenses accounted for 0.7% and 1.7% of our total revenue for each of five

months ended May 31, 2009 and 2010. Administrative expenses consisted primarily of listing expenses and professional fee, audit fees, salary and benefits for our management and administrative personnel and social insurance. Administrative expenses also included office expenses, travelling and entertainment expenses and other administrative costs and expenses.

Our administrative expenses increased significantly from RMB8.4 million for the year ended December 31, 2007 to RMB13.9 million for the year ended December 31, 2008, primarily because our audit fee and other expenses incurred in connection with our preparation of the Listing increased during the year. Our administrative expenses decreased from RMB13.9 million for the year ended December 31, 2008 to RMB12.6 million for the year ended December 31, 2009. Our administrative expenses also increased significantly from RMB1.9 million for the five months ended May 31, 2009 to RMB6.4 million for the five months ended May 31, 2010, primarily because our audit fee and other expenses incurred in connection with our preparation of the Listing increased during the period.

As agreed with Mr. Zhang, no remuneration was paid to him during the Track Record Period as Mr. Zhang, being the founder and chairman of the Group and a Controlling Shareholder.

Other expenses

Other expenses primarily represented the amortization expense of the prepaid land lease payments recognised during the five months ended May 31, 2010, for the parcel of land in Zibo City, Shandong province held for future development of our Group.

Finance costs

Our finance costs primarily consisted of interest paid on bank loans, other payables to the Previous Potential Investor that are interest-bearing, and discounted bills. We had no bank loans for the years ended December 31, 2007 and 2008. Our finance costs increased significantly from RMB2.9 million for the year ended December 31, 2007 to RMB7.9 million for the year ended December 31, 2008 primarily due to the one-off interest paid in connection with the settlement of the other payables to the Previous Potential Investor in 2008. Our finance costs were RMB2.1 million for the year ended December 31, 2009 and RMB2.5 million for the five months ended May 31, 2010, which consisted primarily of interests on our new bank loan of RMB100 million obtained from Bank of Communications Co., Ltd., in August 2009. This bank borrowing was obtained for the purpose of financing our general working capital requirements. Pursuant to the request of Bank of Communications Co., Ltd. for a guarantee to be provided by an independent third party in respect of the RMB100 million loan, we approached and successfully procured Zhongkai Metal Products (Beijing) Co., Ltd.* (中凱金屬製品(北京)有限公司) to provide such guarantee in favour to us which then entered into a maximum guarantee contract with Bank of Communications Co., Ltd. To the best of our Directors' knowledge and after due enquiries, as at the Latest Practicable Date Zhongkai Metal Products (Beijing) Co., Ltd.* (中凱金屬製品(北京)有限公司) was owned as to 70% by an Independent Third Party and 30% by one of the Group's five largest customers during the Track Record Period (who

is also an Independent Third Party). This guarantee was subsequently terminated and replaced by a guarantee provided by Full Win New Material on October 21, 2010.

Income Tax

Cayman Islands

Our Company was incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

British Virgin Islands

Under the current laws of the British Virgin Islands, we are not subject to any income tax.

Independent State of Samoa

Under the current laws of the Independent State of Samoa, we are not subject to any income tax.

Hong Kong

We did not have any assessable profits subject to the Hong Kong profits tax during the Track Record Period. We do not anticipate having any income subject to income tax in Hong Kong for the foreseeable future.

People's Republic of China

Dongying Shengli, our subsidiary operating in Mainland China, is located in Dongying City, an Open Coastal City in the PRC, and therefore enjoyed a preferential income tax rate of 24% before January 1, 2008. In accordance with the relevant income tax laws and regulations of the PRC for foreign-invested enterprise, Dongying Shengli is exempted from enterprise income tax ("**EIT**") for two years commencing on the first profitable year of its operations and is entitled to a 50% relief from EIT for the following three years. As 2004 was the first year Dongying Shengli recorded assessable profits, Dongying Shengli was entitled to an exemption from EIT for 2004 and 2005 and a 50% reduction in the applicable statutory rate, which is 12% for 2006 and 2007. The PRC EIT Law was approved and became effective on January 1, 2008, which introduces a wide range of changes including the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Pursuant to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax issued on December 28, 2007 (the "Tax Circular"), Dongying Shengli shall be levied at a rate of 12.5% in 2008 and 25% in 2009 and years thereafter.

Full Win New Material had not commenced production and had no taxable income during the Track Record Period. The applicable EIT rate for Full Win New Material is 25%.

The following table sets forth the applicable corporate income tax rates for our PRC subsidiaries for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2007	**2008**	**2009**	**2009**	**2010**
Dongying Shengli	12%	12.5%	25%	25%	25%
Full Win New Material	N/A	25%	25%	25%	25%

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors by a foreign investment enterprise established in China. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. We are liable to a 10% withholding tax on dividends distributed by our PRC subsidiaries to our offshore enterprise shareholders in respect of earnings generated from January 1, 2008.

During the Track Record Period, no deferred tax has been recognized for withholding tax which would be payable on the unremitted earnings as at December 31, 2007, 2008 and 2009 and the five months ended May 31, 2009 and 2010 that are subject to withholding tax of our PRC subsidiaries. In the opinion of the Directors, it is not probable that our PRC subsidiaries will distribute such earnings in the foreseeable future.

Our Group's effective tax rates were 12.2%, 13.4% and 25.4% for the three years ended December 31, 2007, 2008 and 2009. Our Group's effective tax rates were 25.2% and 25.5% for the five months ended May 31, 2009 and 2010, respectively. The fluctuation in effective tax rates during the Track Record Period was mainly due to the changes in the applicable tax rates of Dongying Shengli, based on the tax relief and the Tax Circular mentioned above which were 12%, 12.5%, 25% and 25% respectively for the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively for reasons disclosed above.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Five months ended May 31, 2010 compared to five months ended May 31, 2009

Revenue. Our revenue increased by approximately 40.8% from RMB272.7 million for the five months ended May 31, 2009 to RMB383.9 million for the five months ended May 31, 2010, primarily due to increases in average selling prices and sales volume of BDO, GBL and THF as a result of the global economic recovery.

Cost of sales. Our cost of sales increased by approximately 41.2% from RMB176.4 million for the five months ended May 31, 2009 to RMB249.0 million for the five months ended May 31, 2010, primarily due to the increase in sales volume of our products and an increase in the average unit purchase price of maleic anhydride, the principal raw material used in our BDO production as a result of the global economic recovery, partially offset by a decrease in cost for other materials and utilities.

Gross profit and gross profit margin. Our gross profit increased by approximately 40.1% from RMB96.3 million for the five months ended May 31, 2009 to RMB134.9 million for the five months ended May 31, 2010 primarily due to the increase in our revenue. Our gross profit margins decreased slightly from 35.3% for the five months ended May 31, 2009 to 35.1% for the five months ended May 31, 2010 primarily due to the decrease of gross profit margin of THF from 40.9% for the five months ended May 31, 2009 to 34.0% for the five months ended May 31, 2010.

Other income and gains. Our other income and gains increased significantly by 53 times from RMB0.21 million for the five months ended May 31, 2009 to RMB11.1 million for the five months ended May 31, 2010, primarily because from December 2009, we started to sell steam derived from our production of maleic anhydride.

Selling and distribution costs. Our selling and distribution costs remained stable for the five months ended May 31, 2009 and 2010, which amounted to RMB6.3 million and RMB6.4 million, respectively, despite an increase in our revenue and sales volume of our products from May 31, 2009 to May 31, 2010. This was primarily because there were less customers located relatively far away from us and we incurred less transportation expenses accordingly.

Administrative expenses. Our administrative expenses increased significantly by approximately 238.3% from RMB1.9 million for the five months ended May 31, 2009 to RMB6.4 million for the five months ended May 31, 2010, primarily because our audit fee and other expenses incurred in connection with our preparation of the Listing increased during the period.

Other expenses. Our other expenses for the five months ended May 31, 2010 was RMB0.7 million, primarily representing the amortisation expense of the prepaid land lease payments recognised during the same period for the parcel of land in Zibo City held for future development.

Finance costs. Our finance costs for the five months ended May 31, 2009 and 2010 were nil and RMB2.5 million, respectively. Our finance costs for the five months ended May 31, 2010 primarily represented interest paid on the loan from Bank of Communications Co., Ltd.

Profit before tax. We generated profit before tax of RMB88.3 million for the five months ended May 31, 2009, which increased by approximately 47.4% to RMB130.1 million for the five months ended May 31, 2010, mainly due to the increase in our gross profit during the same period.

Income tax expenses. Our income tax expense was RMB22.2 million for the five months ended May 31, 2009 and RMB33.2 million for the five months ended May 31, 2010, representing an increase of 49.1%. This increase was primarily attributable to the increase in taxable income.

Total comprehensive income for the period and net profit margin. As a result of the foregoing, our total comprehensive income for the five months ended May 31, 2009 was RMB66.0 million, which increased by approximately 46.8% to RMB96.9 million for the five months ended May 31, 2010. We recorded a net profit margin of 24.2% for the five months ended May 31, 2009, which increased to 25.2% for the five months ended May 31, 2010, mainly due to the increased other income of our Group during 2010, as we started to sell steam from December 2009, which contributed approximately RMB9.3 million to our other income and gains for the five months ended May 31, 2010.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue. Our revenue decreased by approximately 15.6% from RMB883.3 million for the year ended December 31, 2008 to RMB745.4 million for the year ended December 31, 2009, primarily due to the decrease in average selling prices of BDO, GBL and THF as a result of global financial crisis in late 2008 and throughout 2009, the impact of which was partially offset by the increase in our overall sales volume.

Cost of sales. Our cost of sales decreased by approximately 30.2% from RMB695.9 million for the year ended December 31, 2008 to RMB485.9 million for the year ended December 31, 2009, primarily due to a decrease in the average unit purchase price of maleic anhydride, the principal raw material used in our BDO production as a result of global financial crisis. The average unit purchase price of maleic anhydride decreased significantly from RMB8,292.2 per ton for the year ended December 31, 2008 to RMB4,811.5 per ton for the year ended December 31, 2009.

Gross profit and gross profit margin. Despite the decrease in our revenue, our gross profit increased by approximately 38.4% from RMB187.4 million for the year ended December 31, 2008 to RMB259.4 million for the year ended December 31, 2009. Our gross profit margins increased from 21.2% for the year ended December 31, 2008 to 34.8% for the year ended December 31, 2009. The increase in our gross profit and our gross profit margin were primarily because the average purchase price of maleic anhydride, the principal raw material used in our BDO and BDO derivative production, declined to a larger extent than the decrease of our average selling price of our products.

Other income and gains. Our other income and gains decreased by 59.0% from RMB4.2 million for the year ended December 31, 2008 to RMB1.7 million for the year ended December 31, 2009, primarily because we no longer had other payables denominated in Hong Kong dollars or other currencies other than RMB in 2009 as we settled these payables with the Previous Potential Investor during 2008 and thus no more foreign currency exchange gains was recorded in 2009. The investment made by the Previous Potential Investor in 2007 was denominated in Hong Kong dollars, but the functional currency of our Group was denominated in RMB. Due to the appreciation of RMB against the Hong Kong dollar during the Track Record Period, we recorded foreign exchange gains from our payables to the Previous Potential Investor in respect of its investment in 2008. This decrease was partially offset by an income of approximately RMB0.8 million from the sales of steam derived from our own production process of maleicanhydride commenced from December 2009 and a government grant of approximately RMB0.2 million as an encouragement for foreign enterprises in 2009.

Selling and distribution costs. Our selling and distribution costs increased by approximately 4.2% from RMB15.2 million for the year ended December 31, 2008 to RMB15.9 million for the year ended December 31, 2009, primarily due to the slight increase in freight charges as our sales volumes increased.

Administrative expenses. Our administrative expenses decreased by approximately 9.4% from RMB13.9 million for the year December 31, 2008 to RMB12.6 million for the year ended December 31, 2009.

Finance costs. Our finance costs for the years ended December 31, 2008 and 2009 were RMB7.9 million and RMB2.1 million, respectively. Our finance costs for the year ended December 31, 2008 primarily represents our interest on the other payables to the Previous Potential Investor, which we repaid in full in 2008. Our finance costs for the year ended December 31, 2009 primarily represented our interest on our bank loan of RMB100 million newly obtained from Bank of Communications Co., Ltd.

Profit before tax. We generated profit before tax of RMB154.6 million for the year ended December 31, 2008, which increased by approximately 49.2% to RMB230.6 million for the year ended December 31, 2009, mainly due to the increase in our gross profit during 2009.

Income tax expense. Our income tax expense was RMB20.7 million for the year ended December 31, 2008 and RMB58.5 million for the year ended December 31, 2009, representing an increase of 182.6%. This increase was primarily attributable to (i) the expiry of the tax holiday enjoyed by Dongying Shengli in 2009, resulting in the applicable tax rate of Dongying Shengli increasing from 12.5% in 2008 to 25% in 2009 and (ii) the increase in our taxable income in 2009.

Total comprehensive income for the year and net profit margin. As a result of the foregoing, our total comprehensive income for the year ended December 31, 2008 was RMB133.9 million, which increased by approximately 28.5% to RMB172.1 million for the year ended December 31, 2009. We recorded a net profit margin of 15.2% for the year ended December 31, 2008, which increased to 23.1% for the year ended December 31, 2009, mainly due to a higher increase in our gross profit margin in 2009 despite the increase in the applicable income tax rate of Dongying Shengli in 2009.

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenue. Our revenue increased slightly by approximately 0.1% from RMB882.7 million for the year ended December 31, 2007 to RMB883.3 million for the year ended December 31, 2008 primarily due to the increases in our sales volume of our products to meet the increasing market demand in 2008, which was offset by the decrease in average selling price of our products in 2008.

Cost of sales. Our cost of sales increased slightly by approximately 0.1% from RMB694.8 million for the year ended December 31, 2007 to RMB695.9 million for the year ended December 31, 2008, primarily due to the increased volume of maleic anhydride used in our production and offset by the decrease of the average unit purchase price of maleic anhydride. The average unit purchase price of maleic anhydride decreased from RMB9,367.1 per ton for the year ended December 31, 2007 to RMB8,292.2 per ton for the year ended December 31, 2008.

Gross profit and gross profit margin. Our gross profit decreased slightly by approximately 0.2% from RMB187.8 million for the year ended December 31, 2007 to RMB187.4 million for the year ended December 31, 2008, primarily because our revenue and cost of sales remained at the same level in 2007 and 2008. Our overall gross profit margins for the two years ended December 31, 2007 and 2008 remained stable at approximately 21.3% and 21.2%, respectively, primarily because the average selling prices of our products decreased in line with the decrease of the average unit purchase prices of our raw materials.

Other income and gains. Our other income and gains increased by 23.5% from RMB3.4 million for the year ended December 31, 2007 to RMB4.2 million for the year ended December 31, 2008. This increase was primarily due to an increase in our foreign currency exchange gains mainly in relation to the amount of other payables to the Previous Potential Investor denominated in Hong Kong dollars as a result of the further appreciation of RMB against the Hong Kong dollar.

Selling and distribution costs. Our selling and distribution costs increased by approximately 13.4% from RMB13.4 million for the year ended December 31, 2007 to RMB15.2 million for the year ended December 31, 2008 primarily due to an increase in freight charges as our sales volumes increased.

Administrative expenses. Our administrative expenses increased significantly by approximately 65.4% from RMB8.4 million for the year ended December 31, 2007 to RMB13.9 million for the year ended December 31, 2008, primarily due to increases in our audit and other expenses incurred in connection with our preparation of the Listing.

Finance costs. Our finance costs for the years ended December 31, 2007 and 2008 were RMB2.9 million and RMB7.9 million, respectively. Our finance costs for the year ended December 31, 2008 were the interest on other payables to the Previous Potential Investor. Our finance costs for the year ended December 31, 2007 were interest on discounted bills.

Profit before tax. We generated profit before tax of RMB166.5 million for the year ended December 31, 2007, which decreased by approximately 7.1% to RMB154.6 million for the year ended December 31, 2008, primarily as a result of the increase in our administrative expenses and finance costs in 2008.

Income tax expense. Our income tax expense was RMB20.3 million for the year ended December 31, 2007 and RMB20.7 million for the year ended December 31, 2008, representing an increase of 2.0%. This increase was primarily attributable to an increase of our applicable corporate income tax rate of Dongying Shengli from 12% in 2007 to 12.5% in 2008.

Total comprehensive income for the year and net profit margin. As a result of the foregoing, our total comprehensive income for the year ended December 31, 2007 was RMB146.1 million, which decreased by approximately 8.4% to RMB133.9 million for the year ended December 31, 2008. We reported a net profit margin of 16.6% for the year ended December 31, 2007, which decreased to 15.2% for the year ended December 31, 2008, mainly due to the increased level of administrative expenses for the preparation of the Listing and finance costs payable to the Previous Potential Investor during 2008.

Non-controlling interests. Non-controlling interests for the year ended December 31, 2007 represented the 15% interests in Full Smart held by Smart Rise. Such interest in Full Smart was acquired by Mr. Zhang in September 2007, and Full Smart then became a wholly-owned subsidiary of our Group, resulting in the nil balance of non-controlling interests for the year ended December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity have historically been cash generated from our operations and advances from our Director, Controlling Shareholder and related companies. As at December 31, 2007, 2008 and 2009 and May 31, 2010, we had approximately RMB78.2 million, RMB107.3, RMB324.1 million and RMB666.5 million, respectively, in cash and cash deposits. Our cash and cash deposits generally consisted of cash and cash equivalents (such as short-term deposits) and pledged bank deposits. We require cash to fund our ongoing business needs, particularly to pay salary and benefits, purchase price of raw materials and equipment, selling and distribution costs and general and administrative expenses. We had no outstanding bank loans as at December 31, 2007 and 2008. We obtained a bank loan of RMB100 million which remained outstanding as at December 31, 2009 and May 31, 2010. We also had amount due to a director of RMB21.4 million, RMB89.9 million, RMB76.4 million and RMB80.8 million and amount due to the immediate holding company of nil, nil, RMB174.3 million and RMB283.2 million, as at December 31, 2007, 2008 and 2009 and May 31, 2010, respectively, primarily to support our capital expenditure required in the coming years for the new production base in Zibo City, Shandong Province.

We conduct all of our business through our operating subsidiaries established in China. We rely on dividends paid by our operating subsidiaries for the cash needs of the Company, including the funds necessary to pay any dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business. See paragraph headed "Risk factors — Risks relating to our business–We rely on dividends paid out of the profits generated by our PRC subsidiaries for foreign currency needs of other non-PRC members of our Group after the Listing" in this prospectus.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			Five months ended May 31,	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net cash flows from operating activities	153,107	93,423	174,073	36,642	115,181
Net cash flows (used in)/from investing activities	(158,560)	(92,247)	(166,769)	46	64,574
Net cash flows from financing activities	35,879	27,919	209,574	204	162,614
Net increase in cash and cash equivalents	30,426	29,095	216,878	36,892	342,369
Cash and cash equivalents at beginning of year/period	47,740	78,166	107,261	107,261	324,139
Cash and cash equivalents at end of year/period	78,166	107,261	324,139	144,153	666,508

Operating Activities

Net cash generated from operating activities decreased from RMB153.1 million for the year ended December 31, 2007 to RMB93.4 million for the year ended December 31, 2008. This decrease of RMB59.7 million was primarily due to (i) the decrease in other payables and accruals primarily as a result of the settlement of our receipt in advance from a customer as the relevant order was fulfilled in 2008; and (ii) an increase in prepayments, deposits and other receivables because our prepayments for the purchase of raw materials increased in 2008. In order to secure a favorable price of maleic anhydride in 2008, we made the prepayments to our suppliers in respect of the purchase of maleic anhydride.

Net cash generated from operating activities increased from RMB93.4 million for the year ended December 31, 2008 to RMB174.1 million for the year ended December 31, 2009. This increase of RMB80.7 million was primarily due to our increased profit before tax during 2009 and an increase in other payables and accruals in 2009, which was primarily because our Hong Kong subsidiary obtained a Hong Kong dollar denominated advance for the expansion of our Hong Kong office. This advance was fully repaid in early 2010. The increase in net cash generated from operating activity was partially offset by (i) the decrease in prepayments, deposits and other receivables as we continued to make prepayments to secure favourable price of maleic anhydride in 2009; and (ii) an increase in income tax paid primarily due to the expiry of the preferential tax treatment applicable to Dongying Shengli in 2009 and the increase in our profit before tax from 2008 to 2009.

Net cash generated from operating activities increased from RMB36.6 million for the five months ended May 31, 2009 to RMB115.2 million for the five months ended May 31, 2010. This increase of RMB78.5 million was primarily due to (i) the increase in profit before tax as a result of the increase in average selling price of our products during 2010 and (ii) the decrease in prepayments, deposits and other receivables which was in turn primarily because we purchased less maleic anhydride from suppliers since we commenced producing maleic anhydride in December 2009 and made less prepayments to suppliers accordingly. The increase in net cash generated from operating activities was partially offset by an increase in income tax paid primarily due to the increase in profit before tax over the same period.

Investing Activities

Net cash used in investing activities amounted to RMB158.6 million, RMB92.2 million, RMB166.8 million for each of the three years ended December 31, 2007, 2008 and 2009. Net cash flow from investing activities amounted to RMB64.6 million for the five months ended May 31, 2010, respectively. Net cash used in investing activities reflected capital expenditures in connection with our purchases of property, plant and equipment. In 2007, our cash used in investing activities was primarily for the payment in part for purchase of property, plant and equipment for our maleic anhydride production facility. In 2008, our cash used in investing activities included RMB17.2 million for acquisition of property, plant and equipment for our hydrogen production facility and other facilities and RMB75.0 million for the payment as deposits for purchase of land use right for the piece of land where our new production facility in Zibo is located. In 2009, we used approximately RMB165.1 million to purchase construction materials for the expansion of our production facility in Zibo. We expect our net cash used in investing activities over the next several years to increase as we execute our expansion plan to construct new production facilities and further upgrade and improve our existing facilities.

Net cash generated from investing activities amounted to RMB46,000 and RMB64.6 million for each of the five months ended May 31, 2009 and 2010, and such increase was primarily due to a decrease in deposits paid for purchase of property, plant and equipment.

Financing Activities

Net cash generated from financing activities amounted to RMB35.9 million, RMB27.9 million, RMB209.6 million and RMB162.6 million for each of the three years ended December 31, 2007 and 2008 and 2009 and the five months ended May 31, 2010, respectively. The movement in net cash generated from financing activities primarily reflected the cash inflow from bank loans and loan from our Shareholders and the changes of the balances of our borrowings, amount due to and due from related parties and an acceptance note in the amount of RMB50 million we issued to a supplier for our purchase of construction materials for the expansion of our production facility in Zibo.

Net cash generated from financing activities decreased from RMB35.9 million in the year ended December 31, 2007 to RMB27.9 million in the year ended December 31, 2008 primarily due to a decrease in amounts due to our related companies and a decrease in other payables and accruals as a result of our repayment of other payables due to the Previous Potential Investor in 2008, partially offset by an increase in amount due to one of our Directors.

Net cash generated from financing activities increased from RMB27.9 million in the year ended December 31, 2008 to RMB209.6 million in the year ended December 31, 2009 primarily due to a bank loan we obtained to finance our general working capital requirement and an amount due to Apex Wide to finance our investing activities in connection with the expansion of our production facility in Zibo.

Net cash generated from financing activities increased from RMB0.2 million for the five months ended May 31, 2009 to RMB162.6 million for the five months ended May 31, 2010. The increase of RMB162.4 was primarily due to the shareholder's loan from Apex Wide, the increase in the loan from Mr. Zhang for the expansion of our production facility in Zibo and the decrease in our pledged deposit as a result of the settlement of the respective acceptance note issued to a supplier of construction materials.

Working Capital

Despite the slowdown in global economic conditions as a result of the financial crisis, we had sufficient working capital for the operation of our business during the Track Record period. Taking into account the financial resources available to us including our cash and cash equivalents in hand, internally generated funds, available banking facilities, and the net proceeds from the Global Offering, our Directors are of the opinion that we will have sufficient working capital to meet our present requirements and anticipated cash needs for at least twelve months after the date of this prospectus.

Indebtedness

The following table sets forth our indebtedness as at each of the balance sheet dates during the Track Record Period:

	Year ended December 31,			Five months ended May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loan	–	–	100,000	100,000
Amount due to a director	21,377	89,470	76,412	80,804
Amount due to the immediate holding company	–	–	174,326	283,225
Amounts due to related companies	11,326	–	–	–
Other payables	5,981	–	7,043	–
	38,684	89,470	357,781	464,029

The RMB100 million interest-bearing bank loan represented a bank loan Dongying Shengli obtained from Bank of Communications Co., Ltd., in August 2009. This bank loan was obtained for the purpose of financing our general working capital requirements and was guaranteed by Zhongkai Metal Products (Beijing) Co., Ltd.* (中凱金屬製品(北京)有限公司) pursuant to a maximum guarantee contract entered into between it and Bank of Communications Co., Ltd. This guarantee contract was subsequently terminated and replaced by a maximum guarantee contract entered into between Full Win New Materials and Bank of Communications Co., Ltd. on October 21, 2010. To the best of our Directors' knowledge and after due enquiries, as at the Latest Practicable Date Zhongkai Metal Products (Beijing) Co., Ltd.* (中凱金屬製品(北京)有限公司) was owned as to 70% by an Independent Third Party and 30% by one of the Group's five largest customers during the Track Record Period (who is also an Independent Third Party).

Our indebtedness as at December 31, 2007 and 2008 primarily represented amounts we owed to Mr. Zhang, which were primarily used by us to finance our capital expenditures and repay the amount due to the Previous Potential Investor. The amounts due to related companies as of December 31, 2007 primarily represented borrowings from a related party, Shandong Jinpeng, in 2007, which was repaid by us in 2008. Our indebtedness as at December 31, 2009 and May 31, 2010 primarily represented (i) amounts we owed to Apex Wide, which was primarily used in connection with the expansion of our production facility in Zibo (ii) amounts due to Mr. Zhang, which was used by us primarily to finance our capital expenditures; and (iii) the RMB100 million loan from Bank of Communications Co., Ltd. Amounts due to Mr. Zhang and Apex Wide were fully repaid by the allotment and issue of 80 Shares by the Company on November 16, 2010 to Apex Wide, all credited as fully paid. Other than the RMB100 million interest-bearing bank loan guaranteed by a third party, our borrowings set forth in the table above are unsecured and interest free, and do not have a fixed repayment term.

As at September 30, 2010, being the latest practicable date for the purpose of this indebtedness statement in this prospectus, our total unaudited indebtedness amounted to approximately RMB476.1 million, consisting of interest-bearing bank loan of RMB100.0 million, amounts due to Mr. Zhang of approximately RMB80.2 million, and amounts due to Apex Wide of approximately RMB295.9 million. There has not been any material adverse change in our indebtedness since September 30, 2010.

Our Group's gearing ratio (total debts divided by total assets) was 13.7%, 14.1%, 34.9% and 35.2% as of December 31, 2007, 2008 and 2009 and as of May 31, 2010. The significant increase in the gearing ratio as at December 31, 2009 was primarily because we obtained an interest-bearing bank loan from Bank of Communications, Co., Ltd. of RMB100 million in August 2009. We did not have any unutilized banking facilities as at September 30, 2010.

Save as aforesaid and apart from intra-group liabilities, we did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees at the close of business on September 30, 2010.

Contingent Liabilities

On February 4, 2010, a writ of summons with an indorsement of claim was issued from the High Court of Hong Kong with plaintiff being the Previous Potential Investor, against Full Smart, Mr. Zhang and Dongying Shengli for an unspecified amount of damages and declaratory relief. Further details of the transaction between us and the Previous Potential Investor are set out in "Risk Factors – Mr. Zhang and certain members of our Group may be subject to potential legal proceeding which, if materializes, may result in a material and adverse impact on the assets and financial results attributable to our Company and our Shareholders." The writ has not been served on any of the alleged defendants, nor has the Previous Potential Investor served or put forward any statement of claim. The precise basis of the claim is unknown.

Based on the advice from Samoa legal adviser, the advice from the Counsel and the advice from the PRC legal adviser (in respect of their respective jurisdiction), the Directors are of the opinion that any claims against the Company or any subsidiaries of the Group are unfounded. Further, based on Notice of Equity Charge De-registration dated September 15, 2010 issued by Dongying AIC and the advice from our PRC legal adviser (in respect of PRC law only) advising that the charge on the equity interest of Dongying Shengli was released on September 15, 2010, and the advice from Samoa legal adviser (in respect of Samoa law only) advising that the security over the shares of Full Smart previously pledged to the Previous Potential Investor was released, the Directors are of the opinion that the possibility that the Group would lose control over Full Smart and/or Dongying Shengli is remote.

As at September 30, 2010, except as stated above, we had no material contingent liabilities. We are not involved in any current material legal or administrative proceedings, nor are we aware of any pending or potential material legal or administrative proceedings involving us.

Current Assets and Liabilities

Our current assets and liabilities as at the respective balance sheet dates indicated are as follows:

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
CURRENT ASSETS				
Inventories	10,953	12,873	9,423	12,442
Trade receivables	7,618	17,534	24,437	18,396
Prepayments, deposits and other receivables	1,670	19,633	49,042	44,332
Amounts due from related companies	1,204	–	–	–
Pledged bank deposits	–	–	50,000	–
Cash and cash equivalents	78,166	107,261	324,139	666,508
Total current assets	99,611	157,301	457,041	741,678
CURRENT LIABILITIES				
Trade and bills payables	1,830	1,703	51,738	2,067
Other payables and accruals	57,485	8,317	16,471	14,455
Tax payable	5,106	4,567	17,419	12,700
Interest-bearing bank loan	–	–	100,000	100,000
Amount due to a director	21,407	89,860	76,412	80,804
Amount due to the immediate holding company	–	–	174,326	283,225
Amounts due to related companies	11,326	345	423	469
Total current liabilities	97,154	104,792	436,789	493,720
NET CURRENT ASSETS	2,457	52,509	20,252	247,958

Our net current assets increased by RMB227.7 million from RMB20.3 million as at December 31, 2009 to RMB248.0 million as at May 31, 2010, primarily due to (i) a significant increase in cash and cash equivalents of RMB342.4 million which was in turn primarily as a result of the investments of CIG and China Angel and the return from our suppliers of a part of our prepayment for purchase of construction materials due to certain

changes in the construction plan for the new production facilities in Zibo; and (ii) a decrease in trade and bills payables of RMB49.7 million, which was in turn primarily because we purchased certain construction materials for the new production facilities in Zibo; and (iii) an increase in shareholder's loan from Apex Wide of RMB108.9 million.

Our net current assets decreased by RMB31.5 million from RMB52.5 million as at December 31, 2008 to RMB20.3 million as at December 31, 2009, primarily due to our increased short-term interest-bearing bank loan and amounts due to Apex Wide in 2009 while we used more cash in the construction of our production facility in Zibo, a portion of which has been capitalized as non-current assets, offset by an increase in current assets of approximately RMB299.7 million which was in turn primarily due to an increase in pledged deposits of RMB50.0 million and an increase in cash and cash equivalents of RMB292.4 million.

Our net current assets increased from RMB2.5 million as at December 31, 2007 to RMB52.5 million as at December 31, 2008. The increase of RMB50.0 million was primarily due to an increase in cash and cash equivalents, an increase in prepayments made to our maleic anhydride suppliers in an effort to secure favourable price of maleic anhydride, an increase in our trade receivables which was in turn mainly caused by deferred payment from some of our creditworthy customers with good credit history with us at the end of 2008 in response to the global financial crisis, a decrease in other payables and accruals as a result of our repayment to the Previous Potential Investor in March 2008 and a decrease in amounts due to a related party. The increase in net current assets from December 31, 2007 to December 2008 was partially offset by an increase in amounts due to Mr. Zhang of approximately RMB68.5 million.

As at September 30, 2010, we had net current assets of approximately RMB190.7 million. The key components of our current assets as at September 30, 2010 included inventories of RMB11.4 million, trade receivables of RMB19.7 million, prepayments, deposits and other receivables of RMB80.9 million and cash and cash equivalents of RMB606.7 million. The key components of our current liabilities as at September 30, 2010 included trade payables of RMB4.9 million, tax payable of RMB32.1 million, other payables and accruals of RMB14.4 million, amount due to a director of RMB80.2 million, amount due to Apex Wide of RMB295.9 million and the interest-bearing bank loan of RMB100.0 million.

The trade receivables as at December 31, 2007, 2008 and 2009 and May 31, 2010 are considered to be neither past due nor impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

There were no provisions for impairment of trade receivables as at December 31, 2007, 2008 and 2009 and May 31, 2010.

ANALYSIS OF SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Property, Plant and Equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, leasehold improvements, motor vehicles, plant and machinery and construction-in-progress. As at December 31, 2007, 2008 and 2009 and May 31, 2010, property, plant and equipment amounted to approximately RMB428.5 million, RMB439.8 million, RMB432.3 million and RMB420.5 million, respectively.

Deposits for Acquisitions of Property, Plant and Equipment

We recorded a deposit for the acquisitions of property, plant and equipment as at December 31, 2009 and May 31, 2010 in the amount of RMB215.5 million and RMB92.0 million, respectively. The deposit has been made to secure the purchase of certain construction materials from our suppliers in connection with the construction of our new BDO and PBS production facilities in Zibo, Shandong province. The decrease from December 31, 2009 to May 31, 2010 was primarily due to the return from our suppliers of a part of our prepayments for purchase of construction materials due to certain changes in the construction plan.

Inventories

Our inventories increased from RMB11.0 million as at December 31, 2007 to RMB12.9 million as at December 31, 2008, decreased to RMB9.4 million as at December 31, 2009. Our inventories increased slightly from December 31, 2007 to December 31, 2008 which was in line with the increase in our production volume from 2007 to 2008. Our inventories decreased to RMB9.4 million as at December 31, 2009, primarily because of the decrease in average unit purchase price of our raw materials (mainly maleic anhydride) during the global financial crisis. Our inventories rebounded to RMB12.4 million as at May 31, 2010, primarily due to the increase in average selling prices of our products for the five months ended May 31, 2010 as compared to those for 2009 as a result of global economic recovery. As of September 30, 2010, 100%, 100% and approximately 21% of raw materials, finished goods and parts and consumables respectively of inventories as at May 31, 2010 was sold or consumed.

The following table sets forth our inventory position as at the balance sheet dates indicated:

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	2,267	4,700	3,339	4,722
Finished goods	3,032	3,933	2,026	3,878
Parts and consumables	5,654	4,240	4,058	3,842
Total	10,953	12,873	9,423	12,442

Average inventory turnover days is equal to the average of the beginning and ending inventory balances of the period divided by cost of sales of the period and multiplied by 365 days. Our average inventory turnover days were 12, 6, 8 and 7 days for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Trade receivables

Our trade receivables primarily related to our sales of BDO, GBL and THF to our customers. Our trade receivables amounted to RMB7.6 million, RMB17.5 million, RMB24.4 million and RMB18.4 million as at December 31, 2007, 2008 and 2009 and May 31, 2010, respectively. Our trade receivables as at December 31, 2008 were higher than that as at December 31, 2007, primarily due to the delay in settlement at the end of 2008 in response to the global financial crisis. The increase of our trade receivables from RMB17.5 million as at December 31, 2008 to RMB24.4 million as at December 31, 2009 was primarily due to the increase of orders placed by our major customers around the end of 2009. These customers subsequently paid up all our trade receivables. Our trade receivables as of May 31, 2010 decreased to RMB18.4 million from RMB24.4 million as of December 31, 2009 due to a decrease in the amount of orders placed by our major customers as compared to the end of 2009. As at September 30, 2010, 100% of trade receivables as at May 31, 2010 was settled.

The following table sets forth an aging analysis of our trade receivables as at the balance sheet dates indicated:

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	6,625	17,534	24,437	18,396
1 to 3 months	993	–	–	–
Total	7,618	17,534	24,437	18,396

Average trade receivable turnover days is equal to the average of the starting and ending trade receivable balances of the period divided by revenue of the period and multiplied by 365 days. Our average trade receivable turnover days were 7, 5, 10 and 8 days for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

We generally require our customers to make full payment upon delivery of products, except that for those long-term customers who place orders of substantial amounts and who have a good payment record, we normally accept deferred payment. We seek to maintain strict control over and closely monitor our outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by our senior management. Our credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

Prepayments, deposits and other receivables

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	105	19,060	47,923	40,384
Deferred expenses	204	204	–	138
Deposits and other receivables	1,110	118	868	1,981
Current portion of land lease payments	251	251	251	1,829
	1,670	19,633	49,042	44,332

We recorded a significant increase in the balance of prepayments from approximately RMB19.6 million as at December 31, 2008 to approximately RMB47.9 million as at December 31, 2009. This increase was primarily due to the fact that we commenced making prepayments for the purchase of maleic anhydride, the principal raw material used in our production, as an effort to secure favorable pricing of the raw materials from the suppliers since 2008. Prepayments made as at May 31, 2010 decreased to RMB40.4 million from RMB47.9 million as at December 31, 2009, primarily because we purchased less maleic anhydride from suppliers since we commenced producing maleic anhydride in December 2009 and made less prepayments to suppliers accordingly.

Trade and bills payables

Our trade payables primarily arose from the purchases of raw materials, mainly maleic anhydride. We had trade payables of RMB1.8 million, RMB1.7 million, RMB51.7 million and RMB2.1 million as at December 31, 2007, 2008 and 2009 and May 31, 2010, respectively.

Bills payables as at December 31, 2009 amounted to RMB50.0 million, which were primarily related to the purchase of certain construction materials in connection with the new production facilities in Zibo, Shangdong province.

The following table sets forth an aging analysis of our trade and bills payables as at the balance sheet dates indicated:

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables:				
Within 1 month	1,647	1,703	1,738	2,067
1 to 3 months	183	–	–	–
	1,830	1,703	1,738	2,067
Bills payables	–	–	50,000	–
	1,830	1,703	51,738	2,067

Average trade payable turnover days is equal to the average of the beginning and ending trade payable balances of the years divided by cost of sales and multiplied by 365 days. Our average payable turnover days were two, one, one and one day(s) for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively.

Other payables and accruals

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receipt in advance from a customer	13,000	–	–	1,654
Other payables	38,468	3,534	9,683	3,088
Accruals	2,385	1,595	2,486	2,287
Payroll payable	357	403	392	488
Other tax payable	3,275	2,785	3,910	6,938
	57,485	8,317	16,471	14,455

Our other payables and accruals amounted to RMB57.5 million, RMB8.3 million, RMB16.5 million and RMB14.5 million as at December 31, 2007, 2008 and 2009 and May 31, 2010, respectively. The receipt in advance from a customer of RMB13.0 million as at December 31, 2007 was settled in 2008 as the relevant order was fulfilled in 2008. Other payables of RMB38.5 million as at December 31, 2007 primarily represented the outstanding amounts due to the Previous Potential Investor of approximately RMB27.9 million, which we had repaid together with the accrued interest in full in March 2008. Other payables increased from December 31, 2008 to December 31, 2009, primarily because IAM advanced approximately HK$8.0 million to us in 2009 to satisfy our short-term cash needs in Hong Kong dollars. This advance was fully repaid in early 2010. Our accruals primarily included social insurance payable, transportation expense payable, audit fees and other expenses incurred in connection with the Listing. Other tax payable increased to RMB6.9 million as at May 31, 2010 from RMB3.9 million as at December 31, 2009 primarily due to the increase in revenue as a result of global economic recovery.

CAPITAL EXPENDITURE

Our capital expenditures were incurred primarily in connection with purchases of property, plant and equipment and land use rights. Our capital expenditures, as represented by the cash used in and deposits paid for the purchase of property, plant and equipment and the deposits paid for purchase of land use rights, were RMB158.6 million, RMB92.2 million, RMB166.8 million for each of the three years ended December 31, 2007, 2008 and 2009, respectively. Our primary planned capital expenditures for 2010 are for construction of our new BDO and PBS production facilities in Zibo, Shandong province. We expect that our capital expenditures in 2010 and 2011 will amount to approximately RMB652.3 million and RMB167.1 million, respectively, in connection with both the construction of our production facilities and for maintenance and upkeeping of our existing facilities. We expect to fund these planned expenditures through cash generated from operations and from the proceeds to be received from the Global Offering.

OPERATING LEASE ARRANGEMENT

We lease certain office properties and office equipment under operating lease arrangement for terms ranging from 2 to 15 years. As at December 31, 2007, 2008 and 2009 and May 31, 2010, we had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	408	420	349	3,224
Second to fifth years, inclusive	1,005	748	616	4,841
After five years	188	38	1,495	1,294
	1,601	1,206	2,460	9,359

COMMITMENTS

In addition to the above operating lease commitments, we had the following capital commitments as at the dates indicated below:

	As at December 31,			As at May 31,
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Plant and machinery	17,998	137,356	160,007	180,751
Technology transfer fee	–	–	12,000	12,000
	17,998	137,356	172,007	192,751
Authorized, but not contracted for:				
Plant and machinery	–	375,613	127,688	336,945
	17,998	512,969	299,695	529,696

Our capital commitments as at May 31, 2010 primarily related to purchase of plant and machinery in connection with the construction of our new production facilities at Zibo and technology transfer fee in connection with our technology cooperation with Sichuan University. We intend to fund our capital commitments as at May 31, 2010 by our internally generated funds and if necessary, by obtaining bank and other borrowings.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We did not have any material outstanding off-balance sheet guarantees or interest rate swap transactions as at the Latest Practicable Date. We did not and currently do not plan to engage in trading activities involving non-exchange traded contracts in the immediate future. In our ongoing business, we currently do not plan to enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Exchange Risk

All of our sales were and we expect will continue to be denominated in the Renminbi in the immediate future. Our costs and capital expenditures were and we expect will continue to be largely denominated in the Renminbi. Our businesses are located in China and most of the transactions were and will continue to be conducted in Renminbi. Most of our assets and liabilities were and will continue to be denominated in Renminbi. We currently do not expect that fluctuations of the exchange rates of Renminbi against foreign currencies will have significant effects on our results of operations in the immediate future. We have not hedged foreign exchange rate risk.

A change of 5% in the exchange rate between the Hong Kong dollar and Renminbi would have no material impact on our profit or loss during the Track Record Period and there would be no impact on our equity.

The Renminbi is both our functional currency and our reporting currency. Transactions denominated in other currencies are translated into Renminbi and any resulting foreign currency exchange gains and losses are recognized in our consolidated statements of comprehensive income on the dates of the transactions. We incurred net foreign currency exchange gains of approximately RMB2.7 million, RMB3.5 million, nil and RMB1.0 million for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, respectively, which are reported in our consolidated statements of comprehensive income.

Subsequent to the Global Offering, a depreciation of Renminbi would adversely affect the value of any dividends we pay to our offshore shareholders. We currently do not plan to enter into any hedging arrangements, such as forward exchange contracts and foreign currency option contracts, to reduce the effect of our foreign currency exchange risk exposure. In the event that we decide to enter into any such hedging activities in the future, we cannot assure you that we would be able to effectively manage our foreign currency exchange risk exposure.

Interest Rate Risk

We did not have significant exposure to interest rate changes as we did not have variable-rate borrowings during the Track Record Period.

Credit Risk

It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of our other financial assets which comprise cash and cash equivalents, prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

We generally required no collateral from our customers to secure their payment obligations. We did not have any significant concentration of credit risk during the Track Record Period.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. We monitor our liquidity risk using a recurring liquidity planning tool by considering the maturity of our financial assets and cash flows from operations. We do not believe that we had any significant exposure to liquidity risk as we were in a net current asset position as at December 31, 2007, 2008 and 2009 and May 31, 2010.

Inflation

Inflation in China has not materially and adversely impacted our results of operations in recent years, although there has been a recent trend towards inflation which could affect our costs and our advantages as a China-based manufacturer. According to the China Statistics Bureau, consumer price inflation in China was 4.8%, 5.9% and -0.7% in 2007, 2008 and 2009, respectively.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions described in note 29 to our financial statements as set forth in Appendix I to this prospectus, we confirm that those transactions were conducted on normal commercial terms and that such terms were no less favorable to us than terms available to Independent Third Parties and were fair and reasonable and in the interests of our Shareholders as a whole.

For further information on our related party transactions, see note 29 to our financial statements included in Appendix I to this prospectus.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at our discretion and will depend upon our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors which we consider relevant.

PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises, such as our subsidiaries in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Under the applicable PRC law, each of our subsidiaries in the PRC may only distribute its after-tax profits after it has made allocations or allowances for (i) recovery of accumulated losses; (ii) allocations to the statutory reserves; and (iii) allocation to a discretionary common reserve fund as may be approved by its board of directors.

Subject to the factors above, we plan to distribute dividends regularly after the Listing. We intend to distribute approximately 35% of the distributable profits attributable to Shareholders of our Company as dividends for each full financial year subsequent to the Global Offering. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividend in such manner or declare and pay any dividend at all.

The Company and its subsidiaries did not pay nor declare any dividends during the Track Record Period. You should note that historical dividend distributions are not indicative of our future dividend policy.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on August 27, 2009. As at May 31, 2010, there were no reserves available for distribution to our owners.

PROPERTY INTEREST AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interest (including our prepaid land lease payments and buildings only) as at August 31, 2010 and is of the opinion that the value of our property interests is an aggregate amount of RMB208,948,000. The full text of the letter, summary of valuation and valuation certificates with regard to the property interests are set out in Appendix IV to this prospectus.

Disclosure of the reconciliation of the property interests and the valuation of the property interests as required under Rule 5.07 of the Listing Rules is set out below:

	RMB'000
Net book value of property interests (including our prepaid land lease payments and buildings only) as at May 31, 2010	95,453
Add: Addition for the three months ended August 31, 2010	92,812
Less: Depreciation and amortization for the three months ended August 31, 2010	(875)
Net book value as at August 31, 2010	187,390
Add: Valuation surplus as at August 31, 2010	21,558
Valuation as at August 31, 2010 as per Appendix IV to this prospectus	208,948

The addition of property interest of approximately RMB92.8 million during the three months ended August 31, 2010 represented the acquisition of the land use rights of a parcel of land in Zibo.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of us since May 31, 2010 and there is no event since May 31, 2010 which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

Our Directors forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseeable circumstances, the forecast consolidated profit attributable to the equity holders of our Company for the year ending December 31, 2010 will not be less than RMB201 million.

Forecasted consolidated profit attributable to equity holders of the Company[(1)] . . . . . not less than RMB201 million

Unaudited pro forma forecasted earnings per Share[(2)] . . . . . RMB0.17 (HK$0.20)

Notes:

(1) The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.

(2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010, on the basis that 1,170,000,000 Shares were in issue, assuming that the Shares to be issued pursuant to the Capitalization Issue and the Global Offering had been in issue on January 1, 2010. It does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted under the Share Option Scheme.

The following table sets forth a sensitivity analysis of the forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 with respect to the variation in the maleic anhydride cost (including purchase cost and self-production cost) for the three months ending December 31, 2010, on the assumption that all other forecasted variables remain constant:

Variation in the maleic anhydride cost for the three months ending December 31, 2010[(1)] *(%)*	**Corresponding variation in the forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010** *RMB in million*	**Forecasted consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 (after taking into account variation in maleic anhydride cost for the three months ending December 31, 2010** *RMB in million*
(15)	15.9	216.9
(10)	10.6	211.6
(5)	5.3	206.3
–	–	201.0
5	(5.3)	195.7
10	(10.6)	190.4
15	(15.9)	185.1

Note:

(1) No variation in the maleic anhydride cost for the nine months ended September 30, 2010 was considered in the sensitivity analysis because we have actually incurred such cost.

The above sensitivity analysis is based on the bases set out in Appendix III to this prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of our adjusted consolidated net tangible assets which is based on our consolidated net tangible assets attributable to the owners of our Company as at May 31, 2010 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position.

	Consolidated net tangible assets of our Group as at May 31, 2010	**Adjusted estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted consolidated net tangible assets**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**	
	RMB'000 (Note 1)	*RMB'000 (Note 2)*	*RMB'000*	*RMB (Note 3)*	*HK$ (Note 4)*
Based on a minimum indicative Offer Price of HK$2.33 per Share	842,926	460,904	1,303,830	1.11	1.30
Based on a maximum indicative Offer Price of HK$3.33 per Share	842,926	710,839	1,553,765	1.33	1.55

Notes:

1. The consolidated net tangible assets attributable to the owners of our Company as at May 31, 2010 is approximately RMB842,926,000, which represents our net assets derived from the audited consolidated financial statements of the Group as set out in the Accountants' Report set out in Appendix I to this prospectus.

2. The adjusted estimated net proceeds from the Global Offering is based on the indicative Offer Price range of HK$2.33 and HK$3.33 per Share, after deduction of the estimated underwriting fees and related expenses we incurred and does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted upon the Share Option Scheme.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after making the adjustments as described in note 2 above and on the basis of a total of 1,170,000,000 Shares in issue immediately following completion of the Global Offering and Capitalization Issue. It does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted under the Share Option Scheme.

4. The unaudited pro forma adjusted net tangible assets per share amount in RMB are converted to HK$ with exchange rate at HK$1.1703 to RMB1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

5. Our property interests (including our prepaid land lease payments and buildings only) as at August 31, 2010 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer. By comparing the valuation of our property interests (including our prepaid land lease payments and buildings only) of approximately RMB208,948,000 as set out in Appendix IV of this prospectus and the unaudited carrying amounts of these properties (including prepaid land lease payments and buildings only) of approximately RMB187,390,000 as at August 31, 2010, the valuation surplus is approximately RMB21,558,000, which has not been included in our net tangible assets set forth above. The revaluation surplus will not be incorporated in our consolidated financial statements. If the revaluation surplus was recorded in our consolidated financial statements, our annual depreciation and amortization would be increased by approximately RMB447,000.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND PROSPECTS

See the section headed "Business – Our strategy" for a detailed description of our future plans and prospect.

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK$2.83 per Share (being the mid-point of the indicative range of the Offer Price of HK$2.33 to HK$3.33 per Share), we estimate that the net proceeds of the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, will be approximately HK$678 million. We intend to use these net proceeds for the following purposes:

- As to approximately HK$522 million (equivalent to approximately RMB446 million), to be applied to complete construction of our new 55,000 tpa BDO production facility (including applicable licence fee in respect of the forth-generation DAVY Process to be adopted);

- As to approximately HK$70 million (equivalent to approximately RMB60 million), to be applied to complete construction of our 5,000 tpa and 20,000 tpa PBS production lines (including applicable licence fee in respect of the IPCCAS Direct Polycondensation Process to be adopted), which constitutes the first phase of our PBS production facility expansion plan;

- As to approximately HK$43 million (equivalent to approximately RMB37 million), to be applied for completion of ancillary site work and facilities of our new Zibo production base; and

- As to approximately HK$43 million as general working capital of our Group.

We currently envisage that the net proceeds allocated above should be sufficient in completing construction of our new 55,000 tpa BDO facilities and the first phase of our PBS production facility expansion plan.

If the Offer Price is fixed below the mid-point of the indicative price range, the above allocation of net proceeds will be adjusted downward on a pro rata basis. In such event, we intend to fund the corresponding capital expenditure shortage by internally generated funds and/or bank borrowings.

If the Offer Price is fixed above the mid-point of the indicative price range and/or part or all of the Over-allotment Option is exercised, it is the present intention of our Directors to apply such additional net proceeds, first towards general working capital of the Group (up to an amount not exceeding 10% of the total net proceeds raised), with any balance to be applied in pursuit of our other strategies (as more particulars are set out in the paragraph headed "Our strategies" under the section headed "Business" in this prospectus which includes, without limitation, our second phase PBS production facility expansion plan). In this connection, on the assumption of the maximum Offer Price of

HK$3.33 and full exercise of the Over-allotment Option, we estimate that the maximum net proceeds (after deducting underwriting fees and estimated expenses payable by us) will be approximately HK$970 million.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorized financial institutions and/or licensed banks in Hong Kong and/or the PRC.

The net proceeds from the Global Offering received by the Company in Hong Kong dollars will be accounted for in our financial statements at the exchange rate published by the People's Bank of China in effect at the time the net proceeds are received.

HONG KONG UNDERWRITERS

Joint Lead Managers

CCB International Capital Limited
Piper Jaffray Asia Securities Limited
Macquarie Capital Securities Limited

Co-managers

China Everbright Securities (HK) Limited
Guotai Junan Securities (Hong Kong) Limited
Kingston Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, we are offering the Hong Kong Offer Shares for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Shares to be offered pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering, on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

(i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom, Japan, the Cayman Islands, the British Virgin Islands, Independent State of Samoa, the European Union (or any member thereof) or in any other relevant jurisdiction (each a "**Relevant Jurisdiction**"); or

(ii) any change or development involving a prospective change, or any event or series of events likely to result in or represent any change or development involving a prospective change or development, in the

local, national, regional or international financial, political, military, industrial, economic, currency market, legal, fiscal, exchange control or regulatory conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States, or a devaluation of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

(iii) any change or development in the conditions of local, national or international equity securities or other financial markets; or

(iv) a disruption or any general moratorium on commercial banking activities or securities settlement, payment or clearance services or procedures in or affecting Hong Kong (imposed by the Financial Secretary and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at Federal or New York State level or otherwise), the PRC, London, Toyko, the Cayman Islands, the British Virgin Islands, Independent State of Samoa the European Union (or any member thereof) or any other Relevant Jurisdictions; or

(v) the imposition of any moratorium, suspension or restriction on trading in securities generally on or by the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange or minimum or maximum prices for trading having been fixed, or a disruption has occurred in securities settlement or clearance services or procedures, or maximum ranges for prices having been required, by any of the said exchange or by such system or by order of any regulatory or governmental authority; or

(vi) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control or currency exchange rates) in any Relevant Jurisdiction; or

(vii) any adverse change or prospective adverse change in the earnings, results of operations business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of the Company or any member of our Group (including any litigation or claim being threatened or instigated against the Company or any member of the Group); or

(viii) any event or series of events in the nature of force majeure, including, without limitation, acts of government, labor disputes, strikes, lock-outs, riots, public disorder, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), outbreak of diseases or epidemics including, but not limited to, SARS, H5N1, H1N1 and such related/mutated forms or accident or interruption or delay in transportation, economic sanction and any local, national, regional or

international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

(ix) any change or prospective change in, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this prospectus, or

(x) any litigation or claim being threatened or instigated against any member of our Group; or

(xi) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; the chairman or chief executive officer of the Company vacating his or her office in circumstances where the operations of the Group may be adversely affected; the commencement by any regulatory or political body or organization of any action against a director of the Company or member of our Group or an announcement by any regulatory or political body or organization that it intends to take any such action,

which, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

(A) is or may be or is likely to be materially adverse to the business, financial or other condition or prospects of our Company or our Group as a whole or, in the case of paragraph (vi) above, to any present or prospective shareholder of our Company in his/its capacity as such; or

(B) has or might have or is likely to have an adverse effect on the success of the Hong Kong Public Offering or the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares and/or make it impracticable or inadvisable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or

(C) makes it inadvisable, impracticable or inexpedient to proceed with the Hong Kong Public Offering or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or

(b) there comes to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters:

(i) any matter or event showing any of the representations, warranties and undertakings given by the Company and the Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Underwriting Agreement to be untrue, incorrect, inaccurate or misleading when given or repeated; or

(ii) any breach on the part of our Company or any of the Controlling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(iii) any matter which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission herefrom; or

(iv) any statement contained in this prospectus, the Application Forms, the WPIP, the formal notice and any announcements issued by our Company in connection with the Hong Kong Public Offering and Global Offering (including any supplement or amendment thereto) was or has become or is discovered to be untrue, incorrect, inaccurate or misleading in any material respect; or

(v) that there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of the parties to the Hong Kong Underwriting Agreement (other than the Joint Global Coordinators or the Hong Kong Underwriters) pursuant to the indemnity provisions under the Hong Kong Underwriting Agreement; or

(vi) a valid demand by any creditor for repayment or payment of any indebtedness of the Company or any member of the Group or in respect of which the Company or any member of the Group is liable prior to its stated maturity; or

(vii) that a petition is presented for the winding-up or liquidation of our Company or any member of our Group or our Company or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group; or

(viii) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld.

Undertakings to the Hong Kong Stock Exchange under the Hong Kong Listing Rules

By us

We have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing) without the prior consent of the Hong Kong Stock Exchange, except:

(a) in the circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules; or

(b) pursuant to the Global Offering and the Over-allotment Option;

(c) any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

By Controlling Shareholders

Each of the Controlling Shareholders has undertaken to the Hong Kong Stock Exchange that, except pursuant to the Global Offering, it shall not and shall procure that the relevant registered holder(s) shall not, without the prior written consent of the Hong Kong Stock Exchange:

(a) at any time during the period commencing from the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owner; or

(b) at any time during the six months commencing on the date on which the First Six-month Period expires (the "**Second Six-month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our controlling shareholder (as defined in the Hong Kong Listing Rules).

Nothing in this undertaking shall prevent the Controlling Shareholders from using the Shares beneficially owned by him as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan.

Each of the Controlling Shareholders has also undertaken to the Hong Kong Stock Exchange that, he/it will, within the period commencing on the date by reference to which disclosure of his/its shareholding is made in this prospectus and up to the end of the Second Six-Month Period, immediately inform us of:

(a) any pledges or charges of any of the Shares or securities of our Company beneficially owned by he/it in favor of any authorized institution (as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong)), and the number of such Shares or securities of our Company so pledged or charged; and

(b) any indication received by he/it, either verbal or written, from any pledgee or chargee of any of the Shares or other securities of our Company pledged or charged that any of such Shares or securities will be disposed of.

The restrictions above shall not apply to any Shares acquired by the Controlling Shareholders by way of on-market transaction after the Listing Date.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement as soon as possible after being so informed by any of the Controlling Shareholders.

Undertakings to the Underwriters pursuant to the Hong Kong Underwriting Agreement

By us

We have undertaken to each of the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that, except pursuant to the Capitalisation Issue, the Global Offering (including pursuant to the Over-allotment Option), the grant or exercise of the options granted under the Share Option Scheme, we will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date:

(i) offer, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, conditionally or unconditionally, any of its share capital, debt capital or any securities or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital or any securities or any interest therein); or

(ii) enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of such share capital, debt capital or securities or interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital, debt capital or such other securities, in cash or otherwise, or offer to or agree to do, or publicly disclose that our Company will or may enter into any transaction described in paragraph (i) above and this paragraph (ii); or

(iii) effect any purchase of Shares, or agree to do so, which may reduce the holdings of Shares of persons who count as members of the "public" for the purposes of the Hong Kong Listing Rules below 25 per cent. of our Company's issued share capital.

By the Controlling Shareholders

Each of the Controlling Shareholders has undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Hong Kong Underwriters and our Company that, except pursuant to the Stock Borrowing Agreement and the exercise of conversion rights attaching to the September 2009 Exchangeable Notes and the November 2009 Exchangeable Notes (as defined in the section headed "History, Reorganisation and corporate structure" in this prospectus), it will not, and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, without the prior written consent of the Joint Global Coordinators and unless in compliance with the requirements of the Listing Rules:

(i) at any time commencing from the date of the Hong Kong Underwriting Agreement up to the end of six months from the Listing Date (the "**First Six-month Period**"), offer, pledge, charge, sell, lend, mortgage, assign, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by him or it (including, but not limited to any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital, debt capital or other securities of our Company or any interest therein) or enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital, debt capital or such other securities, in cash or otherwise, or offer to or agree to do, or publicly disclose that he or it will or may enter into any of the foregoing or announce any intention to do so;

(ii) at any time during the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), offer, pledge, charge, sell, lend, mortgage, assign, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by him or it (including but not limited to any securities that are convertible into or exercisable or exchangeable for or that represent the right to receive, any such share capital, debt capital or other securities of our Company or any interest therein) or enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital, debt capital or such other securities, in cash or otherwise, or offer to or agree to do, or publicly disclose that it will or may enter into any of the foregoing transactions or announce any intention to do so if, immediately following such transaction, he or it would cease to be a controlling shareholder (as defined in the Hong Kong Listing Rules) of our Company;

(iii) in the event of a disposal by him or it of any share capital, debt capital or other securities of our Company or any interest therein during the Second Six-Month Period, he or it will take all steps to ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of our Company;

(iv) within the period commencing on the date of this prospectus and up to the end of the Second Six-Month Period, he or it will immediately inform our Company, the Joint Sponsors, the Joint Global Coordinators, each of the Hong Kong Underwriters and the Company of:

(a) any pledges or charges of any Shares or other securities of our Company beneficially owned by him or it, together with the number of such Shares or other securities of our Company so pledged or charged and the purpose for which such pledge or charge is to be created; and

(b) any indication received by him or it, either verbal or written, from the pledgee or chargee of any Shares or other securities of our Company pledged or charged that such Shares or other securities of our Company so pledged or charged will be disposed of.

Nothing in this undertaking shall prevent the Controlling Shareholders from using the Shares beneficially owned by him as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan.

The restrictions above shall not apply to any Shares acquired by the Controlling Shareholders by way of on-market transaction after the Listing Date.

Commission and expenses

We will pay to the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) an underwriting commission at the rate of 3% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which the Hong Kong Underwriters will pay all (if any) sub-underwriting commissions. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters.

We will also pay to (i) each of the Joint Sponsors a sponsorship fee; and (ii) each of the Joint Global Coordinators (on their respective own account) certain additional fee calculated by reference to a formula respectively applicable to such Joint Global Coordinator and the gross proceeds of the Global Offering.

Indemnity

The Company and the Controlling Shareholders have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Underwriters' interest in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

INTERNATIONAL OFFERING

International Underwriting Agreement

In connection with the International Offering, it is expected that the Company will, on or about December 3, 2010 shortly after determination of the Offer Price, enter into the International Underwriting Agreement with the Controlling Shareholders and the Joint Global Coordinators on behalf of the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares. Potential investors shall be reminded that in the event that the International Underwriting agreement is not entered into, the Global Offering will not proceed and will lapse.

Under the International Underwriting Agreement, the Company intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at the sole and absolute discretion of the Joint Global Coordinators for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 43,875,000 additional Shares representing, in aggregate, 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price and will be, among others, for the purpose of covering over-allocations in the International Offering, if any.

Sponsors' Independence

Each of the Joint Sponsors has declared its independence from us pursuant to Rule 3A.08 of the Listing Rules that they are independent pursuant to Rule 3A.07 of the Listing Rules.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, December 13, 2010, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:30 a.m. on Monday, December 13, 2010. The Shares will be traded on the Main Board in board lots size of 1,000 Shares each.

TOTAL COMMISSION AND EXPENSES

Assuming an Offer Price of HK$2.83 per Share (being the mid-point of the stated offer price range of HK$2.33 to HK$3.33 per Share), the aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, HKSFC transaction levy of 0.003%, Hong Kong Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to around HK$149.5 million in total. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

THE STRUCTURE OF THE GLOBAL OFFERING

The Global Offering comprises the Hong Kong Public Offering and the International Offering. A total of 292,500,000 Shares will initially be made available under the Global Offering. A total of 263,250,000 Shares will initially be offered under the International Offering for subscription (a) in the United States to QIBs in reliance on Rule 144A or another exemption under the U.S. Securities Act and (b) outside the United States in reliance on Regulation S, in the International Offering and the remaining 29,250,000 Shares will initially be offered to the public under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described in the paragraph headed "The Hong Kong Public Offering" in this section).

Investors may apply for Shares under the Hong Kong Public Offering or indicate an interest for Shares under the International Offering, but not under both. Investors may only receive Shares under either the International Offering or the Hong Kong Public Offering, but not under both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Offering will involve the selective marketing of Shares to QIBs in the United States in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

As part of the International Offering process, prospective professional, institutional and other investors will be required to specify the number of Shares they would be prepared to acquire under the International Offering either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about December 2, 2010.

PRICING AND ALLOCATION

The Offer Price for the purposes of the Hong Kong Public Offering is expected to be determined by agreement between us and the Joint Global Coordinators (on behalf of the Underwriters), following completion of the book-building process for the International Offering and after assessment of the level of market demand for the Global Offering. The book-building process is expected to continue up to, and cease on or about December 2, 2010.

Allocation of Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investors are likely to buy further, and/or hold or sell, their Shares after the Listing . Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit our Company and our Shareholders as a whole.

Allocation of Shares to applicants under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for, but, subject to and in accordance with the allocation of Hong Kong Offer Shares in Pool A and Pool B described in the paragraph headed "The Hong Kong Public Offering" below, will be made on an equitable basis, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$3.33 and is currently expected to be not less than HK$2.33. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$3.33 per Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK$3,363.57 for one board lot of 1,000 Shares.

If the Offer Price, as finally determined in the manner described below, is lower than the maximum Offer Price, appropriate refund payments (including brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies) will be made to applicants, without interest. Further details are set out in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Shares will be determined. The Price Determination Date is expected to be on or around December 3, 2010 and, in any event, not later than December 10, 2010.

The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with our consent, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators with us, will be fixed within such revised Offer Price

range. Such notice will also include confirmation or revision, as appropriate, of the offer statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. If applications for the Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then if the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the indicative Offer Price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by the Joint Global Coordinators with us, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us by the Price Determination Date, the Global Offering will not become unconditional and will lapse.

An announcement of the Offer Price, together with the level of indications of interest in the International Offering, the level of applications under the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the final number of Hong Kong Offer Shares comprised in Pool A and Pool B, respectively, under the Hong Kong Public Offering, is expected to be published on or before December 10, 2010.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

All acceptances of applications for the Hong Kong Offer Shares in the Hong Kong Public Offering are conditional upon:

(a) Listing

The Hong Kong Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option), the Capitalization Issue, and the Shares which may fall to be allotted and be issued pursuant to the exercise of options that may be granted under the Share Option Scheme.

(b) Pricing

The Offer Price having been duly determined, and the International Underwriting Agreement having been duly entered into, on or about the Price Determination Date.

(c) Underwriting Agreements Unconditional

The obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators for and on behalf of the Underwriters) and neither of the Underwriting Agreements being terminated in accordance with its terms or otherwise, in the case of each of (a) to (c) above, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

The consummation of each of the International Offering and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the Business Day next following such lapse.

In the above situation, all application monies will be returned to applicants, without interest and on the terms set out in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus. In the meantime, all application monies will be held in a separate bank account or separate bank accounts with a receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

We expect to issue share certificates for the Hong Kong Offer Shares on December 10, 2010. However, these share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date (expected to be December 13, 2010) if (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the paragraph headed "Underwriting arrangements and expenses – Hong Kong Underwriting Agreement – Grounds for termination" under the section headed "Underwriting" in this prospectus, has not been exercised.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions described in the paragraph headed "Conditions of the Hong Kong Public Offering" above) for the subscription in Hong Kong of, initially, 29,250,000 Shares (representing approximately 10% of the total number of Shares initially available under the Global Offering) at the Offer Price.

Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.5% of our enlarged issued Share capital immediately after completion of the Global Offering, without taking into account any Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option, or, if the Over-allotment Option is exercised in full, approximately 2.4% of our enlarged issued Share capital after the exercise of the Over-allotment Option.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes: Pool A and Pool B. All valid applications that have been received for Hong Kong Offer Shares with a total subscription amount (excluding brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy payable thereon) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total subscription amount (excluding brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy payable thereon) of more than HK$5 million will fall into Pool B.

The number of Hong Kong Offer Shares comprised in Pool A and Pool B will not be determined until after applications have been made. We and the Joint Global Coordinators shall have discretion in determining the number of Hong Kong Offer Shares which shall comprise each of Pool A and Pool B. Where either of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Moreover, if demand for Hong Kong Offer Shares falling within Pool A is significant or otherwise justified, and irrespective of whether Pool B is undersubscribed or not, it is expected that the number of Hong Kong Offer Shares comprising Pool A will be increased in order to increase the allocation ratio of Pool A, with a view to allowing more Pool A applicants to receive allocations of Hong Kong Offer Shares. In that case, applications in excess of the number of Hong Kong Offer Shares finally determined to be comprised in Pool B (but not more than the maximum number initially permitted) will be deemed to have been made at the number of Hong Kong Offer Shares finally determined to be in Pool B.

The Hong Kong Offer Shares in each of Pool A and Pool B will be allocated on an equitable basis to applicants falling within each pool. However, applicants should be aware that applications in Pool B are likely to receive different allocation ratios than applications in Pool A. Applicants can only receive an allocation of Hong Kong Offer Shares from Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the Hong Kong Offer Shares initially available under the Hong Kong Public Offering (that is, any application for more than 14,625,000 Hong Kong Offer Shares) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any International Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The final number of Hong Kong Offer Shares comprised in Pool A and Pool B, respectively, under the Hong Kong Public Offering, will, following the determination by us and the Joint Global Coordinators, be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) together with the Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares. This announcement is expected to be published on December 10, 2010.

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. The number of Shares initially available under the Hong Kong Public Offering will represent approximately 10% of the total number of Shares available under the Global Offering (before taking into account any exercise of the Over-allotment Option).

If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be increased to 87,750,000, 117,000,000 and 146,250,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as "Mandatory Reallocation". In such cases, the number of Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deems appropriate, and such additional Shares will be allocated to Pool A and Pool B.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deems appropriate. In addition to any Mandatory Reallocation which may be required, the Joint Global Coordinators may, at its discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

A total of 263,250,000 Shares will initially be available to investors under the International Offering. These Shares represent 90% of the Shares initially available under the Global Offering, without taking into account any exercise of the Over-allotment Option. Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent

approximately 22.5% of our enlarged issued Share capital immediately after completion of the Global Offering, without taking into account any exercise of the Over-allotment Option, or, if the Over-allotment Option is exercised in full, approximately 21.7% of our enlarged issued Share capital after the exercise of the Over-allotment Option.

In the case of over-subscription under the Hong Kong Public Offering, the International Offer Shares may be reallocated to the Hong Kong Public Offering as set out in the paragraph headed "The Hong Kong Public Offering" above.

The International Offering is conditional on (among other things) the Hong Kong Public Offering becoming unconditional.

OVER-ALLOTMENT OPTION AND STABILIZATION

The Over-allotment Option

In connection with the Global Offering and in connection with over-allocations in the International Offering, if any, and other stabilizing action in respect of the Shares, we intend to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators, at any time from the date of the International Underwriting Agreement up to (and including) the date which is the 30th day after the last date for lodging Application Forms under the Hong Kong Public Offering, pursuant to which our Company may be required to allot and issue, at the Offer Price, up to an additional 43,875,000 Shares, representing 15% of the total number of Offer Shares initially available under the Global Offering. If the Over-allotment Option is exercised in full, the additional Shares made available will represent approximately 3.8% of the total Shares in issue immediately after completion of the Global Offering, and approximately 3.6% of the issued share capital of our Company as enlarged by the allotment and issue of such additional Shares. In the event that the Over-allotment Option is exercised, an announcement will be published in accordance with the Listing Rules.

Stabilizing action

In connection with the Global Offering, the Stabilizing Manager (or its affiliates or any person acting for it), as stabilizing manager, may (but shall not be obliged), for its own account as principal or on behalf of any Underwriters, but not as agent for the Company, to the extent permitted by applicable laws and regulatory requirements of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilizing transactions (in the market or otherwise and whether in Hong Kong or elsewhere) with a view to stabilizing or maintaining the market price of the Shares at such prices, in such amounts and in such manner as the Stabilizing Manager or its affiliates or any person acting for it may determine and at levels other than those which might otherwise prevail in the open market. CCB International Capital Limited has been or will be appointed as the Stabilizing Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO and, should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it.

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager or any person acting for it may cover such over-allocation by (among other methods) making purchases in the secondary market, exercising the Over-allotment Option in full or in part, or by any combination of purchases and exercise of the Over-allotment Option. Any such purchases will be made in compliance with all applicable laws and regulatory requirements including the Securities and Futures (Price Stabilizing) Rules made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which are the subject of the Over-allotment Option, being 43,875,000 Shares, representing 15% of the total number of Shares initially available under the Global Offering.

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager (or its affiliates or any person acting for it) may choose to borrow Shares from Apex Wide under stock borrowing arrangements, or acquire Shares from other sources, pending exercise of the Over-allotment Option. Such stock borrowing arrangements may include arrangements agreed in principle between the Stabilizing Manager and Apex Wide. For the purposes of these stock borrowing arrangements, a Stock Borrowing Agreement has been entered into between the Stabilizing Manager as the borrower and Apex Wide as the lender of 43,875,000 Shares.

Pursuant to Rule 10.07(3) of the Listing Rules, the above share lending arrangement will not be subject to the restrictions of Rule 10.07(1) of the Listing Rules, given that the following requirements as stated in Rule 10.07(3) of the Listing Rules have been complied with: (i) the maximum number of Shares to be borrowed from Apex Wide by the Stabilizing Manager is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option; (ii) the same number of Shares so borrowed is returned to the Apex Wide or its nominee (as the case may be) within three Business Days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full; (iii) borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with applicable listing rules, laws and other regulatory requirements; and (iv) no payment will be made to Apex Wide by the Stabilizing Manager in relation to the share lending arrangement.

The possible stabilizing action which may be taken by the Stabilizing Manager in connection with the Global Offering may involve (among other things): (i) over-allocation of Shares; (ii) purchases of Shares; (iii) establishing, hedging and liquidating positions in Shares; (iv) exercising the Over-allotment Option in whole or in part; and/or (v) offering or attempting to do any of the foregoing.

Specifically, prospective applicants for and investors in the Shares should note that:

- The Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the Shares;

- There is no certainty regarding the extent to which and the time period for which the Stabilizing Manager will maintain such a position;

- Liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the Shares;

- No stabilizing action will be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire at the end of January 2, 2011, being the day which is expected to be the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;

- The price of any security (including the Shares) cannot be assured to stay at or above its offer price by the taking of any stabilizing action; and

- Stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

A public announcement, as required by the Securities and Futures (Price Stabilizing) Rules made under the SFO, will be made within seven days of the expiration of the stabilizing period.

1. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form, or if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**. If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, we and the Joint Global Coordinators (or their respective agents or nominees) as our agent may accept it at our or the Joint Global Coordinators' discretion, and subject to any conditions we or the Joint Global Coordinators think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators and the designated **White Form eIPO** Service Provider (where applicable) and our or their respective agents and nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, our Directors or chief executive or their respective associates or any other connected persons of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Shares under the Hong Kong Public Offering or indicate an interest for Shares under the International Offering, but not under both. You may only receive Shares under either the International Offering or the Hong Kong Public Offering, but not under both.

2. CHANNELS OF APPLICATION FOR HONG KONG OFFER SHARES

There are three channels to make an application for Hong Kong Offer Shares. You may either (i) use an Application Form; (ii) apply online through the designated website of the **White Form eIPO** Service Provider, referred to herein as the "**White Form eIPO**" service; or (iii) **electronically** instruct HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

3. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Where to Collect the WHITE and YELLOW Application Forms

You can collect a **WHITE** Application Form and this prospectus during normal business hours from 9:00 a.m. on Tuesday, November 30, 2010 till 12:00 noon on Friday, December 3, 2010 from:

- any of the following offices of the Hong Kong Underwriters:

CCB International Capital Limited
34th Floor
Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Piper Jaffray Asia Securities Limited
Suite 1308
Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Macquarie Capital Securities Limited
Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

China Everbright Securities (HK) Limited
36/F, Far East Finance Centre
16 Harcourt Road, Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Kingston Securities Limited
Suites 2801-2808
28th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

or any one of the following branches of Industrial and Commercial Bank of China (Asia) Limited:

	Branch Name	**Address**
Hong Kong Island	Queen's Road Central Branch	122–126 Queen's Road Central, Central
	Wanchai Branch	117–123 Hennessy Road, Wanchai
	Causeway Bay Branch	Shop A, G/F, Jardine Center, 50 Jardine's Bazaar, Causeway Bay
	Quarry Bay Branch	G/F, 1036–1040 King's Road, Quarry Bay
Kowloon	Tsimshatsui East Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui
	Yaumatei Branch	542 Nathan Road, Yaumatei
	Mei Foo Branch	Shop N95A, 1/F, Mount Sterling Mall, Mei Foo Sun Chuen
	Ngau Tau Kok Branch	Shop Nos. G211–214, G/F., Phase II, Amoy Plaza, 77 Ngau Tau Kok Road

	Branch Name	Address
New Territories	Tseung Kwan O Branch	Shop Nos. 2011–2012, Level 2, Metro City, Plaza II, 8 Yan King Road, Tseung Kwan O
	Sha Tsui Road Branch	Shop 4, G/F., Chung On Building, 297–313 Sha Tsui Road, Tsuen Wan

or any one of the following branches of Standard Chartered Bank (Hong Kong) Limited:

	Branch Name	Address
Hong Kong Island	Central Branch	Shop no. 16, G/F and Lower G/F, New World Tower, 16-18 Queen`s Road Central, Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	North Point Centre Branch	North Point Centre, 284 King`s Road, North Point
Kowloon	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	68 Nathan Road Branch	Basement, Shop B1, G/F and M/F, Golden Crown Court, 66-70 Nathan Road, Tsimshatsui
	San Po Kong Branch	Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong
	Lok Fu Shopping Centre Branch	Shop G201, G/F., Lok Fu Shopping Centre
	Mei Foo Stage I Branch	G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok
New Territories	Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin
	Yuen Long Fung Nin Road Branch	Shop B at G/F and whole 1/F, Man Cheong Building, 239-247 & 247A Castle Peak Road, Yuen Long
	Tuen Mun Town Plaza Branch	Shop No. G047 – G052, Tuen Mun Town Plaza Phase I, Tuen Mun
	Tseung Kwan O Branch	Shop G37-40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Tuesday, November 30, 2010 till 12:00 noon on Friday, December 3, 2010 from:

(1) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) your stockbroker, who may have such Application Forms and this prospectus available.

How to complete the WHITE and YELLOW Application Forms

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the **WHITE** or **YELLOW** Application Form, among other things:

(a) you **instruct** and **authorize** us and/or the Joint Global Coordinators (or their respective agents or nominees) as agents for us to do on your behalf all things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or in the name of HKSCC Nominees, as the case may be, as required by the Memorandum and Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;

(b) you **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Memorandum and Articles of Association;

(c) you **warrant** the truth and accuracy of the information contained in your application;

(d) you **agree** that neither HKSCC nor HKSCC Nominees shall be liable to you in any way;

(e) you **authorize** us to enter into a contract on your behalf with each of our Directors and officers of our Company whereby each such Directors and officer undertakes to observe and comply with his obligations to our Shareholders as stipulated in the Articles of Association;

(f) if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters and other parties involved in the Global Offering nor any of their respective directors, employees, partners, agents, officers or advisors will infringe any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising

from your rights and obligations under the terms and conditions contained in this prospectus and the Application Forms;

(g) you **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus and the Application Forms in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus and you **agree** that neither the Company, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, other parties involved in the Global Offering nor any of their respective directors, officers, employees, partners, agents or advisors will have any liability for any such other information or representations;

(h) you **agree** that we, our Directors and any person who has authorized this prospectus are liable only for the information and representations contained in this prospectus and any supplement thereto;

(i) you **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(j) (if the application is made for your own benefit) you **warrant** that the application is the only application which has been or will be made for your benefit whether on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**);

(k) (if the application is made by an agent on your behalf) you **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;

(l) (if you are an agent for another person) you **warrant** that you have made reasonable enquiries of that other person that the application is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**), and that you are duly authorized to sign the Application Form or to give **electronic application instructions** as that other person's agent;

(m) you **undertake** and **confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted (including conditionally and/or

provisionally) any Shares under the International Offering or otherwise participated in the International Offering;

(n) you **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(o) you **represent**, **warrant** and **undertake** that you understand that you are not or none of the persons for whose benefit you are applying is restricted by any applicable laws of Hong Kong or elsewhere from making the application, paying any application monies for, or being allotted or taking up any Hong Kong Offer Shares; and that the Shares have not been and will not be registered under the U.S. Securities Act and you and any person for whose account or benefit you are applying for the Hong Kong Offer Shares are non-U.S. persons outside the United States (as defined in Regulation S) and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S);

(p) you **agree** to disclose to us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, the Hong Kong Share Registrar, the receiving bankers and/or their respective advisors and agents, personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(q) you **agree** with us and each Shareholder, and we agree with each Shareholder, to observe and comply with the Cayman Islands Companies Law and the Memorandum and Articles of Association;

(r) you **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(s) you **authorize** our Company to place your name(s) or HKSCC Nominees, as the case may be, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and (subject to the terms and conditions set forth in this prospectus) our Company and/or our Company's agents to send any share certificate(s) (where applicable) and/or any refund cheque(s) (if any) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your Application Form you wish to collect your share certificate(s) (where applicable) and/or refund cheque(s) (if any) in person and have provided all information required in your Application Form);

(t) you **agree** with our Company and each Shareholder that the Shares are freely transferable by the holders thereof; and

(u) you **confirm** that you have read the conditions and application procedures set out in this prospectus and the Application Forms and agree to be bound by them.

In order for the **YELLOW** Application Form to be valid:

You, as the applicant(s), must complete the **YELLOW** Application Form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

(a) If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

(i) The designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

(b) If you are applying as an individual CCASS Investor Participant:

(i) The Application Form must contain your NAME and Hong Kong I.D. Card number;

(ii) Your participant I.D. must be inserted in the appropriate box in the Application Form.

(c) If you are applying as a joint individual CCASS Investor Participant:

(i) The Application Form must contain all joint CCASS Investor Participants' NAMES and the Hong Kong I.D. Card number of all joint CCASS Investor Participants;

(ii) Your participant I.D. must be inserted and the authorized signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(d) If you are applying as a corporate CCASS Investor Participant:

(i) The Application Form must contain your company NAME and Hong Kong business registration certificate number;

(ii) Your participant I.D. and your company chop (bearing your company name) endorsed by its authorized signatory(ies) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or omission or inadequacy of authorized signatory(ies) (if applicable) or other similar matters may render your application invalid.

If your application is made through a duly authorized attorney, we and the Joint Global Coordinators (or their respective agents and nominees) as our agent may accept it at our or the Joint Global Coordinators' discretion, and subject to any conditions as we or the Joint Global Coordinators may think fit, including production of evidence of the authority of your attorney. We and the Joint Global Coordinators and our or their respective agents and nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

4. APPLYING THROUGH WHITE FORM eIPO

General

(i) If you are an individual and meet the criteria set out in paragraph headed "Who can apply for Hong Kong Offer Shares" in this section, you may apply through **White Form eIPO** by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through **White Form eIPO,** the Shares will be issued in your own name.

(ii) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.

(iii) If you give **electronic application instructions** through the designated website at **www.eipo.com.hk**, you will have authorised the designated **White Form eIPO** Service Provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

(iv) In addition to the terms and conditions set out in this prospectus, the **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

(v) By submitting an application to the **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the **White From eIPO** Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.

(vi) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.

(vii) You should give electronic application instructions through **White Form eIPO** at the times set out in paragraph headed "Members of the public – time for applying for Hong Kong Offer Shares" in this section below.

You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, December 3, 2010, or such later time as described under the paragraph headed "Effect of bad weather on the opening of the application lists" in this section, the **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.

(viii) You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m. on Friday, December 3, 2010, you will be permitted to continue the application process (by completing full payment of application monies) until 12:00 noon on the last day for submitting applications (i.e. Friday, December 3, 2010), when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, December 3, 2010, or such later time as described in the paragraph headed "Effect of bad weather on the opening of the application lists" in this section, the White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.

(ix) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our Company, our Directors, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "China New Materials Holdings Limited" **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of the "Source of DongJiang – Hong Kong Forest" project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your application through the **White Form eIPO** service, you are advised not to wait until the last day for lodging applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service **(www.eipo.com.hk)**, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. See the paragraph headed "How many applications you may make'' in this section.

Conditions of the White Form eIPO Service

In using the **White Form eIPO** service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

(i) **applies** for the desired number of Hong Kong Offer Shares on the terms and conditions of this prospectus and the **White Form eIPO** designated website at **www.eipo.com.hk** subject to the Memorandum and Articles of Association;

(ii) **undertakes** and **agrees** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to the applicant under such application;

(iii) **warrants** that the application is the only application which has been or will be made whether on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;

(iv) **undertakes** and **confirms** that the applicant and/or the person for whose benefit the applicant is applying have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted (including conditionally and/or provisionally) any Shares under the International Offering or otherwise participated in the International Offering;

(v) **understands** that the declaration and representation will be relied upon by our Company and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to such application;

(vi) **authorizes** our Company to place the applicant's name on our Company's register of members as the holder of any Hong Kong Offer Shares to be allocated to the applicant, and (subject to the terms and conditions set forth in this prospectus and the **White Form eIPO** application) to send any share certificate(s) (where applicable) by ordinary post at the applicant's own risk to the address given on the **White Form eIPO** application (except where the applicant has applied for 1,000,000 Hong Kong Offer Shares or more and that applicant collects any share certificate(s) in person in accordance with the procedures prescribed in the **White Form eIPO** designated website at **www.eipo.com.hk** and this prospectus);

(vii) **requests** that any refund cheque be made payable to the applicant who had used multiple bank accounts to pay the application monies; and (subject to the terms and conditions set forth in this prospectus) to send any refund cheque by ordinary post and at the applicant's own risk to the address given on the **White Form eIPO** application (except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and collects any refund cheque in person in accordance with the procedures prescribed in the **White Form eIPO** designated website at **www.eipo.com.hk** and this prospectus);

(viii) **requests** that any e-Refund payment instructions be dispatched to the application payment account where the applicant had paid the application monies from a single bank account;

(ix) has read the terms and conditions and application procedures set forth on the **White Form eIPO** designated website at **www.eipo.com.hk** and this prospectus and agrees to be bound by them;

(x) **represent**, **warrant** and **undertake** that the applicant is not or none of the persons for whose benefit the applicant is applying is restricted by any applicable laws of Hong Kong or elsewhere from making the application, paying any application monies for, or being allotted or taking up any Hong Kong Offer Shares; and that the Shares have not been and will not be registered under the U.S. Securities Act and the applicant and any person for whose account or benefit the applicant is applying for the Hong Kong Offer Shares are non-U.S. persons outside the United States (as defined in Regulation S) and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); and

(xi) **agrees** that such application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Supplemental Information

If any supplement to this prospectus is issued, applicant(s) who have already submitted **electronic application instructions** through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) has/have not been so notified, or if applicant(s) has/have been notified but have not withdrawn their applications in accordance with the procedures to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

(a) **instruct** and **authorize** us and/or the Joint Global Coordinators (or their respective agents or nominees) as agents for us to do on your behalf all things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name as required by the Memorandum and Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the **White Form eIPO** designated website at **www.eipo.com.hk**;

(b) **undertake** to sign all documents and to do all things necessary to enable you to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Memorandum and Articles of Association;

(c) **warrant** the truth and accuracy of the information contained in your application;

(d) **authorize** us to enter into a contract on your behalf with each of the Directors and officers of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to our Shareholders as stipulated in the Memorandum and Articles of Association;

(e) if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters and other parties involved in the Global Offering nor any of their respective directors, employees, partners, agents, officers or advisors will infringe any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the **White Form eIPO** designated website at **www.eipo.com.hk**;

(f) **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus and you agree that neither the Company, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, other parties involved in the Global Offering nor any of their respective directors, officers, employees, partners, agents or advisors will have any liability for any such other information or representations;

(g) **agree** that we, our Directors and any person who has authorized this prospectus are liable only for the information and representations contained in this prospectus and any supplement thereto;

(h) **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(i) (if the application is made for your own benefit) **warrant** that the application is the only application which has been or will be made for your benefit whether on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**);

(j) (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;

(k) (if you are an agent for another person) **warrant** that you have made reasonable enquiries of that other person that the application is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**), and that you are duly authorized to sign the Application Form or to give **electronic application instructions** as that other person's agent;

(l) **undertake** and **confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted (including conditionally and/or provisionally) any Offer Shares under the International Offering or otherwise participated in the International Offering;

(m) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(n) **represent**, **warrant** and **undertake** that you understand that you are not or none of the persons for whose benefit you are applying is restricted by any applicable laws of Hong Kong or elsewhere from making the application, paying any application monies for, or being allotted or taking up any Hong Kong Offer Shares; and that the Shares have not been and will not be registered under the U.S. Securities Act and you and any person for whose account or benefit you are applying for the Hong Kong Offer Shares are non-U.S. persons outside the United States (as defined in Regulation S) and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S);

(o) **agree** to disclose to us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, the Hong Kong Share Registrar, the receiving bankers and/or their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(p) **agree** with us and each Shareholder, and we agree with each Shareholder, to observe and comply with the Cayman Islands Companies Law and the Memorandum and Articles of Association;

(q) **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(r) **authorize** our Company to place your name(s), on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and (subject to the terms and conditions set forth in this prospectus) our Company and/or our Company's agents to send any share certificate(s) (where applicable) to you by ordinary post at your own risk to the address given on the **White Form eIPO** application (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and collect your share certificate(s) in person in accordance with the procedures prescribed in the **While Form eIPO** designated website at **www.eipo.com.hk** and this prospectus;

(s) **agree** with our Company and each Shareholder that the Shares are freely transferable by the holders thereof; and

(t) **confirm** that you have read the conditions and application procedures set out in this prospectus and the **White Form eIPO** designated website at **www.eipo.com.hk** and agree to be bound by them.

Our Company, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, any other parties involved in the Global Offering and their respective directors, officers, employees, partners, agents and advisors are entitled to rely on any warranty, representation or declaration made by you in such application.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the **White Form eIPO** Service Provider, the **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the **White Form eIPO** Service Provider on the designated website at **www.eipo.com.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in the paragraph headed "Dispatch/collection of share certificates and refund of application monies" in this section.

Power of attorney

If your application is made by a person duly authorised under a power of attorney, Computershare Hong Kong Investor Services Limited (as agent of the Company) and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), our and/or their respective agents or nominees may accept it at our or the Joint Gloabl Coordinators' discretion, and subject to any conditions as we or the Joint Global Coordinators may think fit, including production of evidence of the authority of your attorney. Computershare Hong Kong Investor Services Limited (as agent of the Company), the Joint Gloabl Coordinators and the designated **White Form eIPO** Service Provider and our or their respective agents and nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://*ip.ccass.com*) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our Hong Kong Share Registrar.

Giving electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

(a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(b) HKSCC Nominees does the following things on behalf of each such person:

  (i) **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

  (ii) **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

(iii) **undertakes** and **confirms** that that person has not indicated an interest for, applied for or taken up or indicated an interest for, any Shares under the International Offering or otherwise participated in the International Offering;

(iv) (if the electronic **application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;

(v) (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;

(vi) **understands** that the above declaration will be relied upon by our Company, our Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

(vii) **authorizes** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;

(viii) **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

(ix) **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this prospectus, and that person agrees that none of our Company, our Directors, the Joint Global Coordinators, the Joint Sponsors, the Underwriters and any of the parties involved in the Global Offering will have any liability for any such other information or representation;

(x) **agrees** that our Company, the Joint Global Coordinators, the Joint Sponsors, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisors are liable only for the information and representations contained in this prospectus and any supplement thereto;

(xi) **agrees** to disclose that person's personal data to our Company, our Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents and any information which they may require about that person for whose benefit the application is made;

(xii) **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

(xiii) **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before December 10, 2010, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before December 10, 2010 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

(xiv) **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;

(xv) **agrees** with our Company (for our Company itself and for the benefit of each of our Shareholders) that Shares in our Company are freely transferable by the holders hereof;

(xvi) **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

(xvii) **agrees** with our Company, for ourselves and for the benefit of each of our Shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the Companies Ordinance, the Memorandum and Articles of Association; and

(xviii) **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- **instructed** and **authorized** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- **instructed** and **authorized** HKSCC to arrange payment of the maximum offer price, and the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the price per Offer Share paid on application, refund of the application monies (in each case including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account;

- **instructed** and **authorized** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum application amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, November 30, 2010	**–**	**9:00 a.m. to 8:30 p.m.[(1)]**
Wednesday, December 1, 2010	**–**	**8:00 a.m. to 8:30 p.m.[(1)]**
Thursday, December 2, 2010	**–**	**8:00 a.m. to 8:30 p.m.[(1)]**
Friday, December 3, 2010	**–**	**8:00 a.m.[(1)] to 12:00 noon**

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, November 30, 2010 until 12:00 noon on Friday, December 3, 2010 (24 hours daily, except the last application day).

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, our Hong Kong Share Registrar, receiving bankers, the Joint Sponsors, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Joint Sponsors, the Joint Global Coordinators, the Underwriters and any party or person involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions,** they should either: (i) submit a **WHITE** or **YELLOW** Application Form (as appropriate); or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, December 3, 2010.

6. MEMBERS OF THE PUBLIC – TIME FOR APPLYING FOR HONG KONG OFFER SHARES

Applications on WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (Asia) Nominee Limited – China New Materials Public Offer" (and crossed "**Account Payee Only**") for payment, must be lodged by 12:00 noon on Friday, December 3, 2010, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (Asia) Nominee Limited – China New Materials Public Offer" for payment, should be deposited in the special collection boxes provided at any of the branches of Industrial and Commercial Bank of China (Asia) Limited or Standard Chartered Bank (Hong Kong) Limited listed under the paragraph headed "Applying by using a **WHITE** or **YELLOW** Application Form – Where to collect the **WHITE** and **YELLOW** Application Forms" in this section at the following times:

Tuesday, November 30, 2010	**–**	**9:00 a.m. to 5:00 p.m.**
Wednesday, December 1, 2010	**–**	**9:00 a.m. to 5:00 p.m.**
Thursday, December 2, 2010	**–**	**9:00 a.m. to 5:00 p.m.**
Friday, December 3, 2010	**–**	**9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, December 3, 2010.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until after the closing of the application lists.

White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Tuesday, November 30, 2010 until 11:30 a.m. on Friday, December 3, 2010 or such later time as described under the paragraph headed "Effect of bad weather on the opening of the application lists" under this section below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, December 3, 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed "Effect of bad weather on the opening of the application lists" in this section.

You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, December 3, 2010, or such later time as described under the paragraph headed "Effect of bad weather on the opening of the application lists" in this section, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.

7. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 3, 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Public Offering do not open and close on Friday, December 3, 2010 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected timetable" in this prospectus, such dates mentioned in the section headed "Expected timetable" in this prospectus may be affected. An announcement will be made in such event.

8. HOW MANY APPLICATIONS YOU MAY MAKE

Multiple applications or suspected multiple applications will be rejected.

You may make more than one application for the Hong Kong Offer Shares if and only if you are a nominee, in which case you may make an application by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **WHITE** or **YELLOW** Application Form, and lodge more than one application in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for **each** beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being for your own benefit.

As a nominee, you are deemed to have warranted that reasonable enquiries have been made of the beneficial owner that this is the only application which has been or will be made for his/her benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or designated **White Form eIPO** Service Provider and that you are duly authorized to sign the Application Form or to give **electronic application instructions** on behalf of the relevant beneficial owner on the terms set out in this prospectus and the Application Forms.

Otherwise, multiple applications are not allowed and will be rejected.

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at **www.eipo.com.hk** and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction,** you:

- (if the application is made for your own benefit) **warrant** that the application made pursuant to the Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service;

- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service; and that you are duly authorized to sign the Application Form or give **electronic application instruction** as that other person's agent.

Save as referred to in the above, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or CCASS Custodian Participant) or to the **White Form eIPO** Service Provider through the designated **White Form eIPO** service; or

- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or CCASS Custodian Participant) or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service; or

- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or CCASS Custodian Participant) or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service for more than 50% of the Hong Kong Offer Shares initially being offered for public subscription under the Hong Kong Public Offering as more particularly described in the paragraph headed "The Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus; or

- have taken up, or indicated an interest or applied for, or have received or have been or will be placed or allocated (including conditionally and/or provisionally) any International Offer Shares under the International Offering and make an application on **WHITE** or **YELLOW** Application Form or by way of giving **electronic application instructions** to HKSCC via CCASS or to the designated **WHITE Form eIPO** service provider through the **White Form eIPO** service.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of an application made by HKSCC Nominees acting on **electronic application instructions** or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**)). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being made for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"**Statutory control**" in relation to a company means you:

- control the composition of the board of directors of the company; or
- control more than one-half of the voting power of the company; or
- hold more than one-half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees or the **White Form eIPO** Service Provider through the **White Form eIPO** Service to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting an **electronic application instruction** to HKSCC or the **White Form eIPO** Service

Provider, you agree that your application or the application made by HKSCC Nominees or the **White Form eIPO** Service Provider on your behalf is irrevocable on or before Friday, December 10, 2010. This agreement will take effect as a collateral contract with us and will become binding when you lodge your application or submit your **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before Friday, December 10, 2010, being the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) except by means of one of the procedures referred to in this prospectus.

You may only revoke your application or the application made on your behalf by HKSCC Nominees or the **White Form eIPO** Service Provider before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Hong Kong Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made on your behalf by HKSCC Nominees or the **White Form eIPO** Service Provider has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(b) Full discretion of our Company, the Joint Global Coordinators or the White Form eIPO Service Provider (where applicable) or our or their respective agents to reject or accept:

We, the Joint Global Coordinators and the **White Form eIPO** Service Provider (where applicable) and our or their respective agents and nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

(d) You will not receive any allotment if:

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) any International Offer Shares under the International Offering or otherwise participated in the International Offering. By filling in any of the Application Forms or submitting **electronic application instructions,** you agree not to apply for or indicate an interest for Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Shares in the Hong Kong Public Offering;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your **electronic application instructions** through the White Form eIPO service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**;
- we or the Joint Global Coordinators believe that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed;

- if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the Hong Kong Public Offering for subscription (i.e. 14,625,000 Shares);

- the Underwriting Agreements do not become unconditional; or

- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

10. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum offer price is HK$3.33 per Hong Kong Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 1,000 Hong Kong Offer Shares, you will pay HK$3,363.57. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Offer Shares that may be applied for.

You must pay the maximum offer price and related brokerage, SFC transaction levy and the Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for Hong Kong Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Forms or this prospectus.

11. PUBLICATION OF RESULTS

We expect to publish the Offer Price, the level of applications of the Hong Kong Public Offering, the level of indication of interest in the International Offering and the basis of allotment of the Hong Kong Offer Shares on the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before December 10, 2010.

Results of allocations in Hong Kong Public Offering, including the final Offer Price, level of applications of the Hong Kong Public Offering, basis of allotment of Hong Kong Offer Shares and successful applicants' identification document numbers (where applicable) will be made available at the times and dates in the manner specified below:

- results of allocations will be available from our Company's website at www.china-newmaterials.com.hk and on the website of the Stock Exchange at www.hkexnews.hk from 9:00 a.m. on December 10, 2010;

- results of allocations will be available from our public offer website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on December 10, 2010 to 12:00 midnight on December 16, 2010. The user will be required to key

in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;

- results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from December 10, 2010 to December 13, 2010; and

- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours from December 10, 2010 to December 11, 2010 and on December 13, 2010 of the branches of the receiving banks at the addresses set out in the paragraph headed "Applying by using a **WHITE** or **YELLOW** Application Form —Where to collect the **WHITE** and **YELLOW** Application Forms" above.

12. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than HK$3.33 per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the paragraph headed "Conditions of the Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus, or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application. Subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

(a) (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose share certificates will be deposited into CCASS as described below); and/or

(b) refund cheque crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under **WHITE** or **YELLOW** Application Forms and share certificates for wholly or partially successful applicants under **WHITE** Application Forms or by giving **electronic application instructions** through the **White Form eIPO** service are expected to be posted on or around December 10, 2010. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on December 13, 2010 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the paragraph headed "Underwriting arrangements and expenses – Hong Kong Underwriting Agreement – Grounds for termination" under the section headed "Underwriting" in this prospectus has not been exercised.

If you apply using a WHITE Application Form:

If you have applied for 1,000,000 Hong Kong Offer Shares or more and you have indicated on your **WHITE** Application Form to collect your refund cheque (if any) and/or share certificate(s) (where applicable) in person, you may collect your refund cheque (if any) and/or share certificate (where applicable) from our Hong Kong share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on December 10, 2010 or any other date as notified by us in the newspapers as the date of dispatch/collection of e-Refund payment instructions/refund cheques/share certificates. Applicants being individuals who opt for personal collection must not authorize any other person to

make collection on their behalf. Applicants being corporations which opt for personal collection must attend by their authorized representatives bearing a letters of authorization from their corporations stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque (if any) and share certificate(s) (where applicable) personally within the time specified for collection, they will be dispatched thereafter to you or, if you are joint applicants, to the first-named applicant on your Application From, by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Hong Kong Offer Shares or more and have not indicated on your Application Forms that you will collect your share certificate(s) and/or refund cheque (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the paragraph headed "Conditions of the Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your share certificate(s) (where applicable) and/or refund cheque (if any) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, Stock Exchange trading fee and SFC transaction levy (without interest) will be sent to the address on your Application Form on December 10, 2010 by ordinary post and at your own risk.

If you apply using a YELLOW Application Form:

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on December 10, 2010, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, you should check the results of Hong Kong Public Offering via the means described in the paragraph headed "Publication of results" in this section on December 10, 2010 and report any discrepancies to HKSCC before 5:00 p.m. on December 10, 2010 or such other time/date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance via the CCASS Phone System and

CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form that you wish to collect your refund cheque (if any) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above but have not indicated on your Application Form that you wish to collect your refund cheque (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the paragraph headed "Conditions of the Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund cheque (if any) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, Stock Exchange trading fee, and SFC transaction levy (without interest) will be sent to the address on your Application Form on December 10, 2010 by ordinary post and at your own risk.

If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the **White Form elPO** Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on December 10, 2010, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** on December 10, 2010 by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service and paid the application monies from a single bank account, refund monies (if any) will be dispatched to the application payment bank account in the form of e-Refund payment instructions. If you apply through **White Form eIPO** service and paid the application monies from multiple bank accounts, refund monies (if any) will be dispatched to the address as specified on your **White Form eIPO** application in the form of refund cheque, by ordinary post at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the **White Form eIPO** Service Provider set out above in the paragraph headed "Applying through White Form eIPO — Additional information" in this section.

If you apply by giving electronic application instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on December 10, 2010 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- We expect to publish the application results of CCASS Participants' applications (and where the CCASS Clearing Participant or CCASS Custodian Participant, we will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner described in the paragraph headed "Publication of results" on December 10, 2010. You should check the results published by us and report any discrepancies to HKSCC before 5:00 p.m. on December 10, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your CCASS Clearing Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that CCASS Clearing Participant or CCASS Custodian Participant.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on December 10, 2010. Immediately following the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Offer Share paid on application, in each case including the related brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on December 10, 2010. No interest will be paid thereon.

13. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on December 13, 2010.

The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 1887.

14. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

ERNST & YOUNG
安 永

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

30 November 2010

The Board of Directors
China New Materials Holdings Limited
CCB International Capital Limited
Piper Jaffray Asia Limited

Dear Sirs,

We set out below our report on the financial information of China New Materials Holdings Limited (the "Company"), formerly known as China Enviro New Materials Holdings Limited, and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated statements of comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the three years ended 31 December 2007, 2008 and 2009 and the five-month period ended 31 May 2010 (the "Relevant Periods"), the consolidated statements of financial position as at 31 December 2007, 2008 and 2009 and 31 May 2010 and the statements of financial position of the Company as at 31 December 2009 and 31 May 2010, and a summary of significant accounting policies and other explanatory notes (the "Financial Information"), and the financial information for the five-month period ended 31 May 2009 (the "31 May 2009 Financial Information"), for inclusion in the prospectus of the Company dated 30 November 2010 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 27 August 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Group is principally engaged in the development, manufacture and sale of organic chemical products consisting primarily of 1,4-butanediol ("BDO") and its derivative products: tetrahydrofuran ("THF") and γ-butyrolactone ("GBL"). The Company and its subsidiaries have adopted 31 December as their financial year end date. The particulars of the Company and its subsidiaries are set out in Note 1 of Section II below.

No audited financial statements have been prepared for the Company and the companies now comprising the Group, except for two subsidiaries which were established in Mainland China and a subsidiary which was established in Hong Kong, since the respective dates of their incorporation/establishment as these companies were either newly incorporated or were not subject to statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation or have not carried on any

business since the respective dates of their incorporation. The statutory audited financial statements or management accounts of the Group's two subsidiaries incorporated in Mainland China and a subsidiary incorporated in Hong Kong were prepared in accordance with the relevant accounting principles applicable to these companies in their respective jurisdictions. Except for the statutory audited financial statements for the year ended 31 December 2009 of a subsidiary incorporated in Hong Kong, none of the subsidiaries were audited by us.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated statements of financial position, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Relevant Periods and the statements of financial position of the Company as at 31 December 2009 and 31 May 2010 (collectively, the "Underlying Financial Statements") in accordance with the International Financial Reporting Standards ("IFRSs").

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustments made thereon.

The Directors are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements, the Financial Information and 31 May 2009 Financial Information in accordance with IFRSs and for the contents of the Prospectus in which this report is included. The directors of the respective companies of the Group are responsible for the preparation and the true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. In preparing the Financial Information and the 31 May 2009 Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgement and estimates made are reasonable.

It is our responsibility to form an independent opinion and a review conclusion, based on our audit and review, on the Financial Information and the 31 May 2009 Financial Information, respectively, and to report our opinion and review conclusion thereon to you.

PROCEDURES PERFORMED IN RESPECT OF THE FINANCIAL INFORMATION

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements and is presented in accordance with the basis set out in Note 1 of Section II. For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

PROCEDURES PERFORMED IN RESPECT OF THE 31 MAY 2009 FINANCIAL INFORMATION

For the purpose of this report, we have also performed a review of the 31 May 2009 Financial Information, for which the Directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the 31 May 2009 Financial Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS

In our opinion, for the purpose of this report and on the basis of presentation as set out in Note 1 of Section II, the Financial Information gives, a true and fair view of the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 31 May 2010 and that of the Company as at 31 December 2009, and 31 May 2010 and of the consolidated results and consolidated cash flows of the Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE 31 MAY 2009 FINANCIAL INFORMATION

Based on our review which does not constitute an audit, nothing has come to our attention that causes us to believe that the 31 May 2009 Financial Information, for the purpose of this report, does not give a true and fair view of the consolidated results and cash flows of the Group for the five-month period ended 31 May 2009.

I FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Five–month period ended 31 May	
		2007	2008	2009	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
REVENUE	*6*	882,669	883,298	745,363	272,684	383,901
Cost of sales		(694,844)	(695,855)	(485,941)	(176,400)	(249,037)
Gross profit		187,825	187,443	259,422	96,284	134,864
Other income and gains	*6*	3,357	4,234	1,736	205	11,070
Selling and distribution costs		(13,440)	(15,237)	(15,870)	(6,340)	(6,361)
Administrative expenses		(8,423)	(13,910)	(12,595)	(1,886)	(6,380)
Other expense		–	–	–	–	(657)
Finance costs	*7*	(2,871)	(7,941)	(2,096)	–	(2,450)
PROFIT BEFORE TAX	*8*	166,448	154,589	230,597	88,263	130,086
Income tax expense	*10*	(20,332)	(20,681)	(58,515)	(22,233)	(33,155)
PROFIT FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		146,116	133,908	172,082	66,030	96,931
Profit for the year/period and total comprehensive income for the year/period attributable to:						
Equity holders of the Company		129,014	133,908	172,082	66,030	96,931
Non–controlling interests		17,102	–	–	–	–
		146,116	133,908	172,082	66,030	96,931

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	As at 31 May 2010 RMB'000
NON–CURRENT ASSETS					
Property, plant and equipment	13	428,451	439,844	432,328	420,549
Prepaid land lease payments	14	6,386	6,135	5,884	82,427
Deposits for acquisitions of property, plant and equipment	15	2,711	425	215,544	91,992
Deposits for prepaid land lease payment		–	75,000	71,987	–
Total non–current assets		437,548	521,404	725,743	594,968
CURRENT ASSETS					
Inventories	17	10,953	12,873	9,423	12,442
Trade receivables	18	7,618	17,534	24,437	18,396
Prepayments, deposits and other receivables	19	1,670	19,633	49,042	44,332
Amounts due from related companies	29	1,204	–	–	–
Pledged bank deposits	20	–	–	50,000	–
Cash and cash equivalents	20	78,166	107,261	324,139	666,508
Total current assets		99,611	157,301	457,041	741,678
CURRENT LIABILITIES					
Trade and bills payables	21	1,830	1,703	51,738	2,067
Other payables and accruals	23	57,485	8,317	16,471	14,455
Tax payable		5,106	4,567	17,419	12,700
Interest–bearing bank loan	22	–	–	100,000	100,000
Amount due to a director	29	21,407	89,860	76,412	80,804
Amount due to the immediate holding company	29	–	–	174,326	283,225
Amounts due to related companies	29	11,326	345	423	469
Total current liabilities		97,154	104,792	436,789	493,720
NET CURRENT ASSETS		2,457	52,509	20,252	247,958
TOTAL ASSETS LESS CURRENT LIABILITIES		440,005	573,913	745,995	842,926
Net assets		440,005	573,913	745,995	842,926
EQUITY					
Issued capital	24	1	1	1	1
Reserves	25	440,004	573,912	745,994	842,925
Total equity		440,005	573,913	745,995	842,926

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Issued capital *RMB'000*	Statutory reserve funds *(Note)* *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Non–controlling interest *RMB'000*	Total equity *RMB'000*
At 1 January 2007	1	25,222	224,582	249,805	44,084	293,889
Total comprehensive income for the year	–	–	129,014	129,014	17,102	146,116
Acquisition of non–controlling interest by the Group	–	4,452	56,734	61,186	(61,186)	–
Profit appropriation to reserve	–	14,654	(14,654)	–	–	–
At 31 December 2007 and 1 January 2008	1	44,328	395,676	440,005	–	440,005
Total comprehensive income for the year	–	–	133,908	133,908	–	133,908
Profit appropriation to reserve	–	14,666	(14,666)	–	–	–
At 31 December 2008 and 1 January 2009	1	58,994	514,918	573,913	–	573,913
Total comprehensive income for the year	–	–	172,082	172,082	–	172,082
Profit appropriation to reserve	–	18,359	(18,359)	–	–	–
At 31 December 2009 and 1 January 2010	1	77,353	668,641	745,995	–	745,995
Total comprehensive income for the period	–	–	96,931	96,931	–	96,931
Profit appropriation to reserve	–	11,616	(11,616)	–	–	–
At 31 May 2010	1	88,969	753,956	842,926	–	842,926
(Unaudited)						
At 1 January 2009	1	58,994	514,918	573,913	–	573,913
Total comprehensive income for the period	–	–	66,030	66,030	–	66,030
Profit appropriation to reserve	–	7,858	(7,858)	–	–	–
At 31 May 2009	1	66,852	573,090	639,943	–	639,943

Note: In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 25% of the registered capital after such usages.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Five–month period ended 31 May	
		2007	2008	2009	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		166,448	154,589	230,597	88,263	130,086
Adjustments for:						
Finance costs	*7*	2,871	7,941	2,096	–	2,450
Bank interest income	*8*	(690)	(715)	(735)	(205)	(589)
Depreciation	*8*	10,144	10,593	12,179	4,593	13,860
Recognition of prepaid land premiums	*8*	251	251	251	105	762
		179,024	172,659	244,388	92,756	146,569
Decrease/(increase) in inventories	*17*	23,601	(1,920)	3,450	1,523	(3,019)
Decrease/(increase) in trade receivables	*18*	20,691	(9,916)	(6,903)	(14,496)	6,041
(Increase)/decrease in prepayments, deposits and other receivables		(1,015)	(17,963)	(28,027)	(28,387)	7,012
Increase/(decrease) in trade and bills payables	*21*	(47,446)	(127)	35	(1,317)	329
Increase/(decrease) in other payables and accruals		603	(20,864)	8,154	2,167	(2,016)
Cash generated from operations		175,458	121,869	221,097	52,246	154,916
Interest paid	*7*	(2,871)	(7,941)	(2,096)	–	(2,450)
Interest received	*6*	690	715	735	205	589
Income tax paid		(20,170)	(21,220)	(45,663)	(15,809)	(37,874)
Net cash flows from operating activities		153,107	93,423	174,073	36,642	115,181

	Notes	Year ended 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	Five–month period ended 31 May 2009 RMB'000 (Unaudited)	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(178,560)	(17,247)	(4,663)	(49)	(2,081)
(Increase)/decrease in deposits paid for purchase of property, plant and equipment		–	–	(165,119)	95	73,552
(Additions)/refund of deposits paid for purchase of prepaid land lease payments		–	(75,000)	3,013	–	(6,897)
(Increase)/decrease in pledged deposits		20,000	–	–	–	–
Net cash flows (used in)/from investing activities		(158,560)	(92,247)	(166,769)	46	64,574
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loan		–	–	100,000	–	–
Increase/(decrease) in amount due to a director		(539)	65,587	(13,448)	158	4,392
Increase in amount due to the immediate holding company		–	–	174,326	–	108,899
Decrease/(increase) in amounts due from related companies		(1,204)	1,204	–	–	–
Increase/(decrease) in amounts due to related companies		9,731	(10,981)	78	46	46
Increase in prepayments, deposits and other receivables		–	–	(1,382)	–	(723)
Increase/(decrease) in other payables and accruals		27,891	(27,891)	–	–	–
(Increase)/decrease in pledged deposit		–	–	(50,000)	–	50,000
Net cash flows from financing activities		35,879	27,919	209,574	204	162,614

	Notes	Year ended 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	Five–month period ended 31 May 2009 RMB'000 (Unaudited)	2010 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		30,426	29,095	216,878	36,892	342,369
Cash and cash equivalents at beginning of year/period		47,740	78,166	107,261	107,261	324,139
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		78,166	107,261	324,139	144,153	666,508
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	*20*	78,166	107,261	324,139	144,153	666,508

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	31 December 2009 RMB'000	31 May 2010 RMB'000
NON–CURRENT ASSETS			
Investments in subsidiaries	*16*	1	1
CURRENT ASSETS			
Cash and cash equivalents	*20*	88	88
CURRENT LIABILITIES			
Other payables and accruals	*23*	790	352
Amount due to a subsidiary		2,353	3,000
Amount due to a director		121	271
Total current liabilities		3,264	3,623
NET CURRENT LIABILITIES		(3,176)	(3,535)
TOTAL ASSETS LESS CURRENT LIABILITIES		(3,175)	(3,534)
Net liabilities		(3,175)	(3,534)
DEFICIENCY IN ASSETS			
Issued capital	*24*	1	1
Accumulated loss		(3,176)	(3,535)
Net deficiency in assets		(3,175)	(3,534)

II NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company is a limited company incorporated in the Cayman Islands on 27 August 2009. The Company's registered office is located at the office of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Date of incorporation/ establishment	Place of incorporation/ registration and operations	Nominal value of issued shares/ registered capital	Percentage of equity attributable to the Company					Principal activities
				31 December			31 May		
				2007	2008	2009	2009	2010	
Directly held:									
Full Smart Development Limited [(1)] ("Full Smart") 盈才發展有限公司	25 October 2000	Independent State of Samoa	Ordinary US$100	100	100	100	100	100	Investment holding
Eminent Gains Limited [(1)] ("Eminent Gains") 嘉益有限公司	30 July 2009	The British Virgin Islands	Ordinary US$1	–	–	100	–	100	Investment holding
Indirectly held:									
Mint World (HK) Limited [(2)] ("Mint World") 銘華香港有限公司	12 February 2008	Hong Kong	Ordinary HK$1,000	–	100	100	100	100	Investment holding
King General (HK) Limited [(3)] ("King General") 普君（香港）有限公司	18 August 2009	Hong Kong	Ordinary HK$1	–	–	100	–	100	Investment holding
Dongying Shengli A&C Chemical Co., Ltd.*[(4)] ("Dongying Shengli") 東營勝利中亞化工有限公司	28 August 2003	The People's Republic of China (the "PRC")/ Mainland China	RMB180,000,000	100	100	100	100	100	Manufacture and sale of organic chemical products
Shandong Full Win New Material Science & Technology Co., Ltd.*[(5)] ("Full Win") 山東匯盈新材料科技有限公司	2 April 2008	The People's Republic of China (the "PRC")/ Mainland China	HK$209,998,880	–	100	100	100	100	Manufacture and sale of organic chemical products

* *Wholly foreign-owned enterprises*

(1) No audited financial statements have been prepared for each of the Relevant Periods as these subsidiaries are not subject to any statutory audit requirements in their jurisdiction of incorporation. The shares of Full Smart were subject to a pledge since September 2007. The pledge was subsequently removed pursuant to a board resolution of Full Smart in April 2009. Further details are set out in note 23 to the Financial Information.

(2) The statutory financial statements of Mint World for the period from 12 February 2008 (date of incorporation) to 31 December 2008 was audited by W.K. Pang & Co., certified public accountants in Hong Kong. The statutory financial statements for the year ended 31 December 2009 was audited by Ernst & Young.

(3) No statutory financial statements have been issued for King General as King General was incorporated on 18 August 2009 and the first statutory financial statements is only required to be issued for the period from 18 August 2009 (date of incorporation) to 31 December 2010.

(4) The statutory financial statements of Dongying Shengli for each of the three years ended 31 December 2007, 2008 and 2009 were audited by Shandong Jianxin Certified Public Accountants Company Limited (山東鑒鑫會計師事務所有限公司). The equity interest of Dongying Shengli was subject to a pledge during November 2007 to September 2010. Further details are set out in Note 23 to the Financial Information.

(5) The statutory financial statements of Full Win for the period from 2 April 2008 (date of establishment) to 31 December 2008 and for the year ended 31 December 2009 were audited by Shandong Jianxin Certified Public Accountants Company Limited (山東鑒鑫會計師事務所有限公司).

Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "History, Reorganization and Corporate Structure" in the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on 25 September 2009. The companies now comprising the Group are under common control of Mr. Zhang Kaijun ("Mr. Zhang") before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods and as further explained in Note 3 below.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of acquisition, incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2007, 2008 and 2009 and 31 May 2010 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at the respective dates.

All intra-group transactions and balances have been eliminated on consolidation.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB") and the International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The IASB issued a number of new or revised IFRSs which are generally effective for annual periods beginning on or after 1 January 2007, 1 January 2008 and 1 January 2009 and 1 January 2010.

For the purpose of preparing and presenting the Financial Information, the Group has early adopted all these new and revised IFRSs that are relevant to the Group's operations as at the beginning of the Relevant Periods.

The accounting policies set out in note 3 below have been applied consistently to all years in the Financial Information.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [2]
IFRS 7 Amendment	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfer of Financial Assets*[4]
IFRS 9	*Financial Instruments* [5]
IAS 24 (Revised)	*Related Party Disclosures* [3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
IFRIC 14 (Amendments)	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, Improvements to IFRSs 2010 has been issued which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34, and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new, revised and amended IFRSs and IFRIC upon initial application. So far, it considers that the new and revised IFRS and IFRICs are unlikely to have any significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial information includes the financial statements of the Company and its subsidiaries for the years ended 31 December 2007, 2008 and 2009 and the five-month period ended 31 May 2010. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Merger accounting for business combinations under common control

The Financial Information has incorporated the financial statement items of the consolidating entities subject to common control in the Relevant Periods as if they had been consolidated from the date when the combining entities first came under the control of the controlling party.

The net assets of the consolidating entities are consolidated using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirers' interests in the fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of Reorganisation under common control.

The consolidated statements of comprehensive income include the results of each of the consolidating entities from the earliest date presented or since the date when the consolidating entities first came under common control, whichever is a shorter period, regardless of the date of the Reorganisation under common control.

All income, expenses, and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of non-controlling interests are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

Subsidiaries

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

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Related parties

A party is considered to be related to the Group if:

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

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group or its parent;

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

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

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

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

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

	Estimated useful lives	**Residual values**
Buildings	30 years	0%
Plant and machinery	12-20 years	5%
Motor vehicles	10 years	5%
Furniture, fixtures and office equipment	5 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each statement of financial position date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments represent the cost of land use rights paid to the PRC government authorities. Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and bills receivables, other receivables and amounts due from related companies, which are classified as loans and receivables.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Impairment of financial assets

The Group assesses at each date of statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

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

Financial liabilities at amortized cost (including interest-bearing bank loans)

Financial liabilities including trade and bills payables, other payables, amount due to a director, amount due to the immediate holding company, amounts due to related companies, and interest-bearing bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within "finance costs" in the statement of comprehensive income.

Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognized initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognized at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the statement of financial position date; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognised in accordance with IAS 18 *Revenue*.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials/Parts and consumables	Purchase cost on the weighted average basis
Finished goods	Cost of direct materials and labour and an appropriate proportion of overheads

Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Employee benefits

Pension schemes

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. These subsidiaries are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated statements of comprehensive income as they become payable in accordance with the rules of the central pension schemes.

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organized by the PRC government. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

Revenue recognition

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

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

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

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the consolidated statements of comprehensive income by way of a reduced depreciation charge.

Borrowing costs

All borrowing costs are recognised as expenses in the consolidated statements of comprehensive income in the period in which they are incurred.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the financial position date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income tax

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

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

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

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

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

(b) in respect of taxable temporary differences associated with investments in subsidiaries and an interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

(b) in respect of deductible temporary differences associated with investments in subsidiaries and an interest in a joint venture, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

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

Foreign currencies

The Financial Information is presented in RMB, which is the functional and presentation currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING ESTIMATES

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

Estimation uncertainty

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

(1) Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management's judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, and the amount of doubtful debt expenses or write-back of provision for trade receivables in the period in which such estimate has been changed.

(2) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in Note 3: Impairment of non-financial assets other than goodwill. The recoverable amount of an asset, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(3) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

(4) Net realizable value of inventories

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

(5) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(6) Income tax provisions

Significant judgment is required in determining the provision for corporate income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

5. OPERATING SEGMENT INFORMATION

The directors consider that the Group's activities constitute one operating segment as all of the Group's operations relate to the manufacture and sale of organic chemical products consisting primarily of BDO and its derivative products, THF and GBL. The management of the Group makes decisions about resource allocation and performance assessment on a group basis.

All of the Group's revenue was attributable to the external customers in the PRC. All non-current assets of the Group are located in the PRC.

None of the Group's sales to a single external customer amounted to 10% or more of the Group's revenue during the Relevant Periods.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and discounts.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue					
Sale of goods	882,669	883,298	745,363	272,684	383,901
Other income					
Bank interest income	690	715	735	205	589
Subsidy income from the PRC government authorities	–	–	160	–	190
Steam sales income	–	–	841	–	9,286
	690	715	1,736	205	10,065
Gains					
Exchange difference, net	2,667	3,519	–	–	1,005
	3,357	4,234	1,736	205	11,070

7. FINANCE COSTS

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest on bank loan	–	–	2,093	–	2,450
Interest paid to a previous potential investor *(note 23)*	–	7,941	–	–	–
Interest arising from discounted bills	2,871	–	3	–	–
	2,871	7,941	2,096	–	2,450

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December			Five-month period ended 31 May	
		2007	2008	2009	2009	2010
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of inventories sold		694,844	695,855	485,941	176,400	249,037
Depreciation	*13*	10,144	10,593	12,179	4,593	13,860
Recognition of prepaid land lease payments	*14*	251	251	251	105	762
Minimum lease payments under operating leases in respect of building		408	445	460	191	1,082
Auditors' remuneration		50	68	68	28	28
Finance costs	*7*	2,871	7,941	2,096	–	2,450
Employee benefits expenses (including directors' remuneration *(note 9)*):						
– Wages and salaries		4,570	5,633	6,232	2,483	2,134
– Retirement benefit scheme contributions		1,088	1,123	804	237	289
– Staff welfare and other expenses		277	429	195	36	168
Bank interest income	*6*	(690)	(715)	(735)	(205)	(589)

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Details of Directors' remuneration are as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fees	–	–	–	–	–
Other emoluments					
Salaries, bonuses, allowance and benefits in kind	66	401	397	165	165
Pension scheme contributions	8	8	7	3	3
	74	409	404	168	168

	Fees *RMB'000*	Salaries, bonuses allowances and benefits in kind *RMB'000*	Total remuneration *RMB'000*
Year ended 31 December 2007			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	15	15
Mr. Lu Wei	–	44	44
Mr. Wong Yee Shuen Wilson	–	15	15
	–	74	74
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

	Fees *RMB'000*	Salaries, bonuses allowances and benefits in kind *RMB'000*	Total remuneration *RMB'000*
Year ended 31 December 2008			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	180	180
Mr. Lu Wei	–	49	49
Mr. Wong Yee Shuen Wilson	–	180	180
	–	409	409
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

	Fees	Salaries, bonuses allowances and benefits in kind	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2009			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	180	180
Mr. Lu Wei	–	44	44
Mr. Wong Yee Shuen Wilson	–	180	180
	–	404	404
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

	Fees *RMB'000* (Unaudited)	Salaries, bonuses allowances and benefits in kind *RMB'000* (Unaudited)	Total remuneration *RMB'000* (Unaudited)
Five-month period ended 31 May 2009			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	75	75
Mr. Lu Wei	–	18	18
Mr. Wong Yee Shuen Wilson	–	75	75
	–	168	168
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

	Fees	Salaries, bonuses allowances and benefits in kind	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Five-month period ended 31 May 2010			
Executive directors:			
Mr. Zhang	–	–	–
Mr. Huang Cheng	–	75	75
Mr. Lu Wei	–	18	18
Mr. Wong Yee Shuen Wilson	–	75	75
	–	168	168
Non-executive directors:			
Mr. Qin Ke Bo	–	–	–
Mr. Wu Chi Chiu	–	–	–
	–	–	–
Independent non-executive directors:			
Mr. Chan Ngai Sang Kenny	–	–	–
Mr. Guo Tian Yong	–	–	–
Mr. Lee Kwan Hung	–	–	–
	–	–	–

No remunerations were made to Mr. Zhang during the Relevant Periods as Mr. Zhang, being the majority beneficial interests owner of the Group, has waived his entitlement to remuneration from the Group during the Relevant Periods.

(b) Five highest paid employees

The number of the five highest paid employees of the Group during the Relevant Periods is as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Directors	1	2	2	2	2
Non-director, highest paid employees	4	3	3	3	3
	5	5	5	5	5

Details of the remuneration paid to the above non-director, highest paid employees for the Relevant Periods are set out below:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	156	127	126	53	90
Pension scheme contributions	22	17	17	5	10
	178	144	143	58	100

The number of the above non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Nil to RMB1,000,000	4	3	3	3	3

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

The Company, which was incorporated in the Cayman Islands, is not subject to income tax.

Full Smart, which was registered in Samoa, is not subject to income tax.

Eminent Gains and King General, which were incorporated in the British Virgin Islands, are not subject to income tax.

Dongying Shengli, the subsidiary of the Company Incorporated in Mainland China, is located in Dongying City, an Open Coastal City in the PRC, and is therefore subject to a preferential income tax rate of 24% before 1 January 2008. In accordance with the relevant income tax laws and regulations of the PRC for foreign-invested enterprise, Dongying Shengli is exempted from the PRC Corporate Income Tax Law ("CIT") for two years commencing from the first profitable year of its operations and is entitled to a 50% relief from the CIT for the following three years. As 2004 was the first year when Dongying Shengli recorded assessable profits, Dongying Shengli was entitled to an exemption from CIT for 2004 and 2005 and to a 50% reduction in the applicable statutory rate, which was 12%, for 2006 and 2007.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Pursuant to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax issued on 28 December 2007, Dongying Shengli shall be levied at a rate of 12.5% in 2008 and 25% in 2009 and the years thereafter.

Full Win, which was established in 2008 in Zibo City, PRC, is subject to income tax rate of 25%. No provision for income tax has been made as Full Win is at the stage of pre-operation and has no assessable profits earned during the Relevant Periods.

Pursuant to the New Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008 and 2009 and 31 May 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB13,925,000, RMB31,441,000 and RMB41,276,000 at 31 December 2008, 31 December 2009 and 31 May 2010, respectively.

The major components of the income tax expense for the Relevant Periods are as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current-PRC					
Charge for the year	20,332	20,681	58,515	22,233	33,155
Deferred	–	–	–	–	–
Total tax charged for the year	20,332	20,681	58,515	22,233	33,155

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rates to the tax expense at the Group's effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	Year ended 31 December			Five-month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before tax	166,448	154,589	230,957	88,263	130,086
Tax at the applicable tax rates	54,746	39,910	58,498	22,119	32,567
Tax effect of:					
Lower tax rates enacted by local authorities	(34,838)	(19,992)	–	–	–
Expenses not deductible for tax	424	689	492	182	279
Tax losses not recognised	–	74	268	7	490
Income not subject to tax	–	–	(743)	(75)	(181)
Tax charge at the Group's effective tax rate	20,332	20,681	58,515	22,233	33,155

11. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007, net of accumulated depreciation	11,903	169,747	290	31	–	181,971
Additions	63	1,585	–	91	254,885	256,624
Transfers	–	613	–	–	(613)	–
Depreciation	(411)	(9,681)	(37)	(15)	–	(10,144)
At 31 December 2007 and at 1 January 2008, net of accumulated depreciation	11,555	162,264	253	107	254,272	428,451
Additions	–	9,409	–	311	12,266	21,986
Transfers	–	8,331	–	–	(8,331)	–
Depreciation	(447)	(10,068)	(37)	(41)	–	(10,593)
At 31 December 2008 and at 1 January 2009, net of accumulated depreciation	11,108	169,936	216	377	258,207	439,844
Additions	–	192	260	293	3,918	4,663
Transfers	–	253,904	–	–	(253,904)	–
Depreciation	(378)	(11,721)	(37)	(43)	–	(12,179)

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009 and at 1 January 2010, net of accumulated depreciation	10,730	412,311	439	627	8,221	432,328
Additions	648	404	386	456	187	2,081
Transfers	–	–	–	–	–	–
Depreciation	(181)	(13,560)	(46)	(73)	–	(13,860)
At 31 May 2010, net of accumulated depreciation	11,197	399,155	779	1,010	8,408	420,549
At 1 January 2007						
Cost	12,963	193,788	385	47	–	207,183
Accumulated depreciation	(1,060)	(24,041)	(95)	(16)	–	(25,212)
Net carrying amount	11,903	169,747	290	31	–	181,971
At 31 December 2007 and 1 January 2008						
Cost	13,026	195,986	385	138	254,272	463,807
Accumulated depreciation	(1,471)	(33,722)	(132)	(31)	–	(35,356)
Net carrying amount	11,555	162,264	253	107	254,272	428,451
At 31 December 2008 and 1 January 2009						
Cost	13,026	213,726	385	449	258,207	485,793
Accumulated depreciation	(1,918)	(43,790)	(169)	(72)	–	(45,949)
Net carrying amount	11,108	169,936	216	377	258,207	439,844
At 31 December 2009 and 1 January 2010						
Cost	13,026	467,822	645	742	8,221	490,456
Accumulated depreciation	(2,296)	(55,511)	(206)	(115)	–	(58,128)
Net carrying amount	10,730	412,311	439	627	8,221	432,328
At 31 May 2010						
Cost	13,674	468,228	1,029	1,198	8,408	492,537
Accumulated depreciation	(2,477)	(69,073)	(250)	(188)	–	(71,988)
Net carrying amount	11,197	399,155	779	1,010	8,408	420,549

All of the property, plant and equipment owned by the Group are located in the PRC.

As at 31 December 2007, 2008 and 2009 and 31 May 2010, no property, plant and equipment of the Group had been pledged to secure the interest-bearing bank loan granted to the Group.

14. PREPAID LAND LEASE PAYMENTS

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at 1 January	6,888	6,637	6,386	6,135
Addition during the year	–	–	–	78,883
Recognised during the year	(251)	(251)	(251)	(762)
Carrying amount at end of the year	6,637	6,386	6,135	84,256
Current portion included in prepayments, deposits and other receivables *(note 19)*	(251)	(251)	(251)	(1,829)
Non–current portion	6,386	6,135	5,884	82,427

The Group's leasehold lands are held under a medium term lease ranging from 40 years to 50 years and is situated in Mainland China.

15. DEPOSITS FOR PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2009 and 31 May 2010, the Group entered into a number of contracts with independent third parties and made prepayments in respect of the purchase of property, plant and equipment mainly for Full Win.

16. INVESTMENT IN SUBSIDIARIES

Company

	31 December	31 May
	2009	2010
	RMB'000	*RMB'000*
Unlisted investments, at cost	1	1

Investments in subsidiaries represent the cost of the entire interests in Full Smart and Eminent Gains. Details of investments in subsidiaries are set out in note 1 of Section II.

17. INVENTORIES

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	2,267	4,700	3,339	4,722
Finished goods	3,032	3,933	2,026	3,878
Parts and consumables	5,654	4,240	4,058	3,842
	10,953	12,873	9,423	12,442

18. TRADE RECEIVABLES

The Group generally requires its customers to make payment upon goods delivery, except for those long standing customers with bulk purchases and good payment history, where deferred payments are normally accepted. The Group does not have a universal credit period granted to the customers. The Group seeks to maintain strict control over its outstanding receivables and keeps close monitoring on them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

An aged analysis of the trade receivables as at each of the statement of financial position dates, based on the invoice date, is as follows:

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	6,625	17,534	24,437	18,396
1 to 3 months	993	–	–	–
	7,618	17,534	24,437	18,396

There were no provisions for impairment of trade receivables as at 31 December 2007, 2008 and 2009 and 31 May 2010.

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

The trade receivables as at 31 December 2007, 2008 and 2009 and 31 May 2010 are considered to be neither past due nor impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for supplies	105	19,060	47,923	40,384
Deferred expenses	204	204	–	138
Deposits and other receivables *(note 30)*	1,110	118	868	1,981
Current portion of prepaid land lease payments *(note 14)*	251	251	251	1,829
	1,670	19,633	49,042	44,332

At 31 December 2007, 2008 and 2009 and 31 May 2010, the net balance of prepayments, deposits and other receivables was neither past due nor impaired. Financial assets included in the above balance relate to receivables for which there was no recent history of default.

20. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

Group

		31 December			31 May
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances		78,166	107,261	374,139	666,508
Less: Pledged bank deposits	*(a)*	–	–	(50,000)	–
Cash and cash equivalents	*(b)*	78,166	107,261	324,139	666,508

Company

	31 December	31 May
	2009	2010
	RMB'000	*RMB'000*
Cash and bank balances *(note 30)*	88	88

Notes:

(a) The Group's pledged bank deposits were pledged as security for issuing bank acceptance notes to the suppliers.

(b) As at 31 December 2007, 2008 and 2009 and 31 May 2010, the Group's cash and bank balances and the time deposits of the Group denominated in Renminbi ("RMB") amounted to RMB78,138,000, RMB107,015,000 and RMB319,907,000 and RMB655,400,000 respectively. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

21. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at 31 December 2007, 2008 and 2009 and 31 May 2010, based on the invoice date, is as follows:

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	1,647	1,703	1,738	2,067
1 to 3 months	183	–	–	–
	1,830	1,703	1,738	2,067
Bills payable	–	–	50,000	–
	1,830	1,703	51,738	2,067

The Group normally obtains credit terms ranging from 1 to 3 months from its suppliers. Trade payables are unsecured and interest-free. The carrying amounts of the trade payables and bills payable approximate to their fair values.

All the bills payable bear maturity dates within 180 days.

22. INTEREST-BEARING BANK LOAN

	31 December 2009			31 May 2010		
	Effective interest rate	Maturity		Effective interest rate	Maturity	
	(%)		*RMB'000*	*(%)*		*RMB'000*
Current						
Bank loan – unsecured*	5.841%	2010	100,000	5.841%	2010	100,000

*: The bank loan was guaranteed by Zhongkai Metal Products (Beijing) Co., Ltd. ("Zhongkai Metal", 中凱金屬製品(北京)有限公司), an independent third party, pursuant to a maximum guarantee contract entered into between Zhongkai Metal and Bank of Communications.

The carrying amounts of the Group's interest-bearing bank loan approximate to its fair values.

23. OTHER PAYABLES AND ACCRUALS

Group

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receipt in advance from customers	13,000	–	–	1,654
Other payables *(note 30)*	38,468	3,534	9,683	3,088
Accruals	2,385	1,595	2,486	2,287
Payroll payable *(note 30)*	357	403	392	488
Other tax payable	3,275	2,785	3,910	6,938
	57,485	8,317	16,471	14,455

Company

	31 December	31 May
	2009	2010
	RMB'000	*RMB'000*
Accruals	790	352

Other payables and accruals are non-interest-bearing and are repayable on demand or within six months. Included in the other payables balance was an amount of approximately HK$29,809,000 (equivalent to approximately RMB27,891,000) due to a previous potential investor ("Previous Potential Investor") as at 31 December 2007. During the period from August to October 2007, a series of agreements (the "2007 Agreements") were entered into among the Previous Potential Investor, Mr. Zhang, Full Smart and Dongying Shengli for the purpose of a potential pre-IPO investment into the Group, pursuant to which it was conditionally agreed among the parties that (i) the Previous Potential Investor would, for a consideration of HK$100 million, subscribe for 20% of the issued share capital of Full Smart as enlarged by the subscription (the "Proposed Subscription"); and (ii) the shares of Full Smart and the equity interest of Dongying Shengli would be charged or mortgaged to the Previous Potential Investor as security for the Proposed Subscription. In late 2007, an amount of HK$50,000,000 (equivalent to approximately RMB46,781,000) was advanced by the Previous Potential Investor to the Group as a deposit ("Investment Deposit") pending fulfillment of certain conditions precedent as stipulated in the 2007 Agreements. However, subsequently, the Previous Potential Investor decided not to proceed with the Proposed Subscription and demanded refund of the Investment Deposit in full with interest. As of 31 December 2007, approximately HK$20,191,000 (equivalent to approximately RMB18,890,000) has been repaid by the Group to the Previous Potential Investor and the remaining balance of approximately HK$29,809,000 (equivalent to approximately RMB27,891,000) due from the Group to the Previous Potential Investor was recorded as other payable in the consolidated statement of financial position of the Group. In 2008, the remaining balance of approximately HK$29,809,000 (equivalent to approximately RMB27,891,000) plus discretionary interest of approximately HK$8.9 million (equivalent to approximately RMB7.9 million) was repaid to the Previous Potential Investor. The charge over the shares of Full Smart was later removed pursuant to a board of director resolution of Full Smart on 15 April 2009 and the charge over the equity interest of Dongying Shengli was released in September 2010.

On February 4, 2010, the Previous Potential Investor issued a claim against Full Smart, Mr. Zhang and Dongying Shengli for unspecified damages and declaratory relief. Further details related to this potential litigation are set out in note 26 to the Financial Information.

24. ISSUED CAPITAL

The Company was incorporated on 27 August 2009 with an authorised share capital of HK$1,000,000 divided into 100,000,000 shares of HK$0.01 each. On 27 August 2009, one share was allotted and issued, at nil consideration, to Codan Trust Company (Cayman) Limited as subscriber who then transferred the same to Apex Wide at par value on the same date. On 30 April 2010, 99 shares of HK$0.01 each were allotted and issued fully paid to Apex Wide. Pursuant to a sale and purchase agreement as supplemented by a supplemental agreement dated 25 April 2010 and 29 April 2010, respectively, on 30 April 2010, three shares of the Company were transferred to China Angel Investment Management Limited ("China Angel") from Apex Wide at a consideration of HK$37,500,000. Pursuant to a sale and purchase agreement dated 12 May 2010, on the same date, one share of the Company was transferred to China Angel from Apex Wide at a consideration of HK$12,500,000. Pursuant to another sale and purchase agreement dated 12 May 2010, on the same date, two shares of the Company were transferred to Chinaland Investment Group Limited ("CIG") from Apex Wide at a consideration of HK$25,000,000.

Save for aforesaid, the Company has not carried on any other businesses since the date of its incorporation.

The issued capital balances as presented in the consolidated statements of financial position as at 31 December 2007 and 2008 represented the issued combined paid-in capital of the companies now comprising the Group as set out in note 1 to this report.

25. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Group.

26. CONTINGENT LIABILITY

On 4 February 2010, a previous potential investor ("Previous Potential Investor") issued a claim against Full Smart, Mr. Zhang and Dongying Shengli (the "Alleged Defendants") for unspecified damages and declaratory relief. Further details are given in note 23 to the Financial Information. The related writ of summons has not been served on any of the Alledged Defendants, nor has the Previous Potential Investor served and/or put forward any statement of claim. The precise basis of the claim is unknown as of the date of this report as neither the writ of summons nor the indorsement of claim provides for a specified claim. Based on the legal advice obtained, the directors are of the opinion that any claims against the Company or any subsidiaries of the Group are unfounded. In addition, based on legal advice, the Group has performed its obligations to release the security over the shares of Full Smart and equity interest of Dongying Shengli previously pledged to the Previous Potential Investor. Accordingly, the directors are of the opinion that the possibility that the Group would lose control over Full Smart and/or Dongying Shengli should the potential legal proceeding materialise is remote.

27. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 15 years. At 31 December 2007, 2008 and 2009, and 31 May 2010 the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	408	420	349	3,224
Second to fifth years, inclusive	1,005	748	616	4,841
After five years	188	38	1,495	1,294
	1,601	1,206	2,460	9,359

28. COMMITMENTS

In addition to the operating lease commitments set out in note 27 above, the Group had the following capital commitments as at the end of each of the reporting periods:

	31 December			31 May
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Plant and machinery	17,998	137,356	160,007	180,751
Technology transfer fee	–	–	12,000	12,000
	17,998	137,356	172,007	192,751
Authorised, but not contracted for:				
Plant and machinery	–	375,613	127,688	336,945
	17,998	512,969	299,695	529,696

29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the Group had the following material transactions with related parties during the Relevant Periods:

(a) Recurring transactions

	Year ended 31 December			Five–month period ended 31 May	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Rental expenses paid to a related company	61	98	111	46	46

The Group entered into tenancy agreements with Shandong Quanxin Stainless Steel Co., Ltd. ("Shandong Quanxin", 山東泉信不銹鋼有限公司), a company of which Mr. Zhang, a director of the Company, is also a director. The tenancy agreements are for (i) a lease of offices from Shandong Quanxin for a term of six years at annual rental of RMB60,955 since July 2004 for Dongying Shengli, a subsidiary of the Company incorporated in Dongying, Shandong Province, China; which has been subsequently extended for additionally two years, commencing from 1 July 2010 and (ii) a lease of offices from Shandong Quanxin for a term of three years at an annual rental of RMB50,000 since March 2008 for Full Win, a subsidiary of the Company incorporated in Zibo, Shandong Province, China.

The rentals were made at prices based on the mutual agreements between the parties. In the opinion of the directors which was based on the view of independent professional qualified valuers, the rental prices paid were consistent with the prevailing market rents for similar premises in similar locations. The above related party transaction will continue after the listing of the Company's shares on the Stock Exchange.

(b) Outstanding balances with related parties:

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due from:				
Shandong Quanxin Stainless Steel Co., Ltd. (山東泉信不銹鋼有限公司) *(note ii)*	1,038	–	–	–
Zibo Jinpeng Copper Co., Ltd. (淄博金鵬銅業有限公司) *(note iii)*	166	–	–	–
	1,204	–	–	–
Due to:				
Shandong Jinpeng Copper Co., Ltd. (山東金鵬銅業有限公司) *(note i)*	11,326	–	–	–
Shandong Quanxin Stainless Steel Co., Ltd. (山東泉信不銹鋼有限公司) *(note ii)*	–	345	423	469
	11,326	345	423	469
Amount due to a director:				
Mr. Zhang	21,407	89,860	76,412	80,804
Amount due to the immediate holding company:				
Apex Wide	–	–	174,326	283,225

Notes:

(i) Shandong Jinpeng Copper Co., Ltd. (山東金鵬銅業有限公司) is a company in which Mr. Zhang, a director of the Company, has equity interests and is also a director.

(ii) Shandong Quanxin Stainless Steel Co., Ltd. ("Shandong Quanxin", 山東泉信不銹鋼有限公司) is a company of which Mr. Zhang, a director of the Company, is also a director.

(iii) Zibo Jinpeng Copper Co., Ltd. (淄博金鵬銅業有限公司) is a company of which Mr. Zhang Chuan Ke, a director of Dongying Shengli, is also a director.

The balances with related parties and a director are of a non-trade nature, unsecured, interest-free and repayable on demand. As at the date of this report, except for the amount due to Shandong Quanxin related to the lease of offices, all the Group's non-trade payables due to related parties had been fully settled.

(c) Compensation of key management personnel of the Group:

	Year ended 31 December			Five–month period ended 31 May	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Short term employee benefits	66	401	397	165	165
Post–employment benefits	8	8	7	3	3
Total compensation paid to key management personnel	74	409	404	168	168

Further details of directors' emoluments are included in note 9.

(d) Indemnification from Mr. Zhang

As further explained in note 26 to the Financial Information, a writ of summons with an indorsement of claim was issued against the Alleged Defendants on 4 February 2010. Mr. Zhang, the major shareholder of the Company, has undertaken to indemnify the Group against all damages, losses, expenses or liabilities which may arise as a result of, relating to or in connection with the litigation, should the purported claims materialise.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting periods are as follows:

Financial assets-loans receivables

	Group			
	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables *(note 18)*	7,618	17,534	24,437	18,396
Financial assets included in prepayments, deposits and other receivables *(note 19)*	1,110	118	868	1,981
Amounts due from related companies *(note 29)*	1,204	–	–	–
Pledged deposits *(note 20)*	–	–	50,000	–
Cash and cash equivalents *(note 20)*	78,166	107,261	324,139	666,508
	88,098	124,913	399,444	686,885

Financial liabilities at amortised cost

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables *(note 21)*	1,830	1,703	51,738	2,067
Financial liabilities included in other payables and accruals *(note 23)*	38,825	3,937	10,075	3,576
Interest–bearing bank loan *(note 22)*	–	–	100,000	100,000
Amount due to a director *(note 29)*	21,407	89,860	76,412	80,804
Amount due to the immediate holding company *(note 29)*	–	–	174,326	283,225
Amounts due to related companies *(note 29)*	11,326	345	423	469
	73,388	95,845	412,974	470,141

Financial assets-loans receivables

	31 December	31 May
	2009	2010
	RMB'000	*RMB'000*
Cash and cash equivalents *(note 20)*	88	88

Financial liabilities at amortised cost

	31 December	31 May
	2009	2010
	RMB'000	*RMB'000*
Amount due to a subsidiary	2,353	3,000
Amount due to a director	121	271
	2,474	3,271

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans, amount due to a director, related companies and the immediate holding company and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The carrying amounts of the Group's financial instruments approximated to their fair values at the end of each of the reporting periods. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. The Group applies prudent strategies to its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Business risk

The Group conducts its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the chemical industry.

Interest rate risk

Management does not anticipate any significant impact resulting from the changes in interest rates because most of the Group's loans as at the end of each of the reporting periods were at fixed interest rates which have no significant impact on cash flow interest rate risk.

Foreign currency risk

The Group's businesses are located in Mainland China and most of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. Fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on the Group's results. The Group has not hedged its foreign exchange rate risk.

A reasonably possible change of 5% in the exchange rate between the Hong Kong dollar and RMB would have no material impact on the Group's profit or loss during the Relevant Periods and there would be no material impact on the Group's equity.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There is no significant concentration of credit risk within the Group.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of the Group's financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities at the end of each of the reporting periods, based on the contracted undiscounted payments, is as follows:

Group

	31 December 2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	1,830	–	–	–	1,830
Financial liabilities included in other payables and accruals	38,468	357	–	–	–	38,825
Amount due to a director	21,407	–	–	–	–	21,407
Amounts due to related companies	11,326	–	–	–	–	11,326
	71,201	2,187	–	–	–	73,388

	31 December 2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	1,703	–	–	–	1,703
Financial liabilities included in other payables and accruals	3,534	403	–	–	–	3,937
Amount due to a director	89,860	–	–	–	–	89,860
Amounts due to related companies	345	–	–	–	–	345
	93,739	2,106	–	–	–	95,845

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables and bills payable	–	1,738	50,000	–	–	51,738
Financial liabilities included in other payables and accruals	9,683	392	–	–	–	10,075
Interest–bearing bank loan	–	–	105,841	–	–	105,841
Amount due to a director	76,412	–	–	–	–	76,412
Amount due to the immediate holding company	174,326	–	–	–	–	174,326
Amounts due to related companies	423	–	–	–	–	423
	260,844	2,130	155,841	–	–	418,815

	31 May 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	2,067	–	–	–	2,067
Financial liabilities included in other payables and accruals	3,088	488	–	–	–	3,576
Interest–bearing bank loan	–	105,841	–	–	–	105,841
Amount due to a director	80,804	–	–	–	–	80,804
Amount due to the immediate holding company	283,225	–	–	–	–	283,225
Amounts due to related companies	469	–	–	–	–	469
	367,586	108,396	–	–	–	475,982

Company

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to a subsidiary	2,353	–	–	–	–	2,353
Amount due to a director	121	–	–	–	–	121
	2,474	–	–	–	–	2,474

	31 May 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to a subsidiary	3,000	–	–	–	–	3,000
Amount due to a director	271	–	–	–	–	271
	3,271	–	–	–	–	3,271

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is total debts divided by total assets. The Group's policy is to maintain the gearing ratio to be less than 50%. Total debts include amount due to a director, amounts due to related companies, amount due to the immediate holding company, trade and bills payables, interest-bearing bank loan and financial liabilities included in other payables and accruals. The gearing ratios at the end of each of the reporting periods were as follows:

	31 December			31 May
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade bills payables *(note 21)*	1,830	1,703	51,738	2,067
Financial liabilities included in other payables and accruals *(note 23)*	38,825	3,936	10,075	3,576
Interest–bearing bank loan *(note 22)*	–	–	100,000	100,000
Amount due to a director *(note 29)*	21,407	89,860	76,412	80,804
Amounts due to related companies *(note 29)*	11,326	345	423	469
Amount due to the immediate holding company *(note 29)*	–	–	174,326	283,225
Total debts	73,388	95,844	412,974	470,141
Total assets	537,159	678,705	1,182,784	1,336,646
Gearing ratio	13.7%	14.1%	34.9%	35.2%

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 May 2010.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' report prepared by the reporting accountants of our Group, Ernst & Young, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" and "Appendix I – Accountants' Report" in the prospectus.

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to provide investors with further information about (i) how the Listing might have affected the consolidated net tangible assets after completion of the Global Offering; and (ii) how the Listing might have affected the forecast earnings per share of the Group for the year ending December 31, 2010 as if the Global Offering had taken place on January 1, 2010. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions of the financial periods concerns.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of our adjusted consolidated net tangible assets which is based on our consolidated net tangible assets attributable to the owners of our Company as at May 31, 2010 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position.

	Consolidated net tangible assets of our Group as at May 31, 2010 *RMB'000 (Note 1)*	**Adjusted estimated net proceeds from the Global Offering** *RMB'000 (Note 2)*	**Unaudited pro forma adjusted consolidated net tangible assets** *RMB'000*	**Unaudited pro forma adjusted consolidated net tangible assets per Share** *RMB (Note 3)*	*HK$ (Note 4)*
Based on a minimum indicative Offer Price of HK$2.33 per Share	842,926	460,904	1,303,830	1.11	1.30
Based on a maximum indicative Offer Price of HK$3.33 per Share	842,926	710,839	1,553,765	1.33	1.55

Notes:

1. The consolidated net tangible assets attributable to the owners of our Company as at May 31, 2010 is approximately RMB842,926,000, which represents our net assets derived from the audited consolidated financial statements of the Group as set out in the Accountants' Report set out in Appendix I to this prospectus.

2. The adjusted estimated net proceeds from the Global Offering is based on the indicative Offer Price range of HK$2.33 and HK$3.33 per Share, after deduction of the estimated underwriting fees and related expenses we incurred and does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted upon the Share Option Scheme.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after making the adjustments as described in note 2 above and on the basis of a total of 1,170,000,000 Shares in issue immediately following completion of the Global Offering and Capitalization Issue. It does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted under the Share Option Scheme.

4. The unaudited pro forma adjusted net tangible assets per share amount in RMB are converted to HK$ with exchange rate at HK$1.1703 to RMB1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

5. Our property interests (including our prepaid land lease payments and buildings only) as at August 31, 2010 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer. By comparing the valuation of our property interests (including our prepaid land lease payments and buildings only) of approximately RMB208,948,000 as set out in Appendix IV of this prospectus and the unaudited carrying amounts of these properties (including our prepaid land lease payments and buildings only) of approximately RMB187,390,000 as at August 31, 2010, the valuation surplus is approximately RMB21,558,000, which has not been included in our net tangible assets set forth above. The revaluation surplus will not be incorporated in our consolidated financial statements. If the revaluation surplus was recorded in our consolidated financial statements, our annual depreciation and amortization would be increased by approximately RMB447,000.

(B) UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share for the year ending December 31, 2010 has been prepared in accordance with Rule 4.29 of the Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the Global Offering, as if it had taken place on January 1, 2010. The unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering.

	Forecast for the year ending December 31, 2010
Forecast consolidated profit attributable to equity holders of the Company[(1)]	not less than RMB201 million
Unaudited pro forma forecast earnings per Share[(2)]	RMB0.17 (HK$0.20)

Notes:

(1) The bases on which the above profit forecast has been prepared are set out in Appendix III to this prospectus.

(2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010, on the basis that 1,170,000,000 Shares were in issue, assuming that the Shares to be issued pursuant to the Capitization Issue and the Global Offering had been in issue on January 1, 2010. It does not take into account of any Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options which may be granted under the Share Option Scheme.

(C) LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of our Group, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.

安永 ERNST & YOUNG

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

November 30, 2010

The Directors
China New Materials Holdings Limited
CCB International Capital Limited
Piper Jaffray Asia Limited

Dear Sirs,

We report on the unaudited pro forma adjusted consolidated net tangible assets and unaudited pro forma forecast earnings per share (the "Unaudited Pro Forma Financial Information") of China New Materials Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which have been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the global offering and placing of 292,500,000 shares of HK$0.01 each in the capital of the Company might have affected the financial information presented, for inclusion in Appendix II to the prospectus of the Company dated November 30, 2010 (the "Prospectus"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II to the Prospectus.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at May 31, 2010 or any future dates; or

- the forecast earnings per share of the Group for the year ending December 31, 2010 or any future periods.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated;

(b) such bases are consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

Our forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2010 is set out in the section headed "Financial Information — Profit forecast for the year ending December 31, 2010" in this prospectus.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the consolidated profit attributable to our equity holders for the year ending December 31, 2010, based on the audited consolidated results of the Group for the five months ended May 31, 2010, the unaudited consolidated results in the management accounts of the Group for the four months ended September 30, 2010 and a forecast of the consolidated results of the Group for the remaining three months ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarised in the accountants' report of our Company as set out in appendix I of this prospectus. The profit forecast has been prepared on the following principal bases and assumptions:

- there will be no material changes in the existing rules, laws, regulations, or government policies (economic, political or legal), including changes in legislation or rules, regulatory, fiscal, economic or market conditions in the PRC, Hong Kong, the Cayman Islands, the Independent State of Samoa, the British Virgin Islands, or any of the countries in which members of the Group currently operate or are established;

- there will be no material changes in inflation rate, interest rate or foreign currency exchange rate in the countries, regions or industries applicable to the business activities of the Group from those presently prevailing;

- there will be no material changes in the bases or rates of taxation or duties in the PRC, Hong Kong, the Cayman Islands, the Independent State of Samoa, the British Virgin Islands, or any of the countries in which members of the Group operate or are established, except as otherwise disclosed in this prospectus;

- there will be no wars, military incidents, pandemic diseases or natural disasters that would have a material impact on the Group's business and operating activities;

- the Group's operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in the section headed "Risk factors" in this prospectus;

- the Group's production and operation will not be significantly affected by interruptions as a result of shortage of raw materials supply, utilities supply, labour disputes, technical barrier and any other reasons that are beyond the control of the Directors; and

- there will be no changes in technology, industry, safety standards, and environmental protection regulations in connection with the Group's products that would have a significant negative impact on the Group's operation in the PRC, Hong Kong, the Cayman Islands, the Independent State of Samoa, the British Virgin Islands, any of the countries in which members of the Group currently operate or are established.

B. LETTER FROM ERNST & YOUNG

The following is the text of a report received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the forecast consolidated profit attributable to equity holders of the Company.

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

November 30, 2010

The Directors
China New Materials Holdings Limited
CCB International Capital Limited
Piper Jaffray Asia Limited

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the forecast of the consolidated profit attributable to equity holders of China New Materials Holdings Limited (the "Company", together with its subsidiaries, hereinafter collectively referred to as the "Group") for the year ending December 31, 2010 (the "Profit Forecast") as set out in the paragraph headed "Profit forecast for the year ending December 31, 2010" under the section headed "Financial Information" in the prospectus of the Company dated November 30, 2010 (the "Prospectus") for which the directors of the Company (the "Directors") are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the audited consolidated results of the Group for the five months ended May 31, 2010, the unaudited consolidated results of the Group for the four months ended September 30, 2010 and a forecast of the consolidated results of the Group for the remaining three months ending December 31, 2010.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated November 30, 2010, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

C. LETTER FROM THE JOINT SPONSORS

The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from the Joint Sponsors, in connection with the forecast of the consolidated profit attributable to our equity holders for the year ending December 31, 2010.

CCB International Capital Limited
34th Floor, Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Piper Jaffray

Piper Jaffray Asia Limited
Suite 1308, Two Pacific Place
88 Queensway
Admiralty
Hong Kong

November 30, 2010

The Directors
China New Materials Holdings Limited

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to equity holders of China New Materials Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ending December 31, 2010 (the "Profit Forecast") as set out in the prospectus issued by the Company dated November 30, 2010 (the "Prospectus").

We understand that the Profit Forecast, for which the directors of the Company are solely responsible, has been prepared based on the audited results of the Group for the five months ended May 31, 2010, the unaudited management accounts of the Group for the four months ended September 30, 2010 and a forecast of the results of the Group for the remaining three months ending December 31, 2010.

We have discussed with you the bases and assumptions made by the directors of the Company as set out in section A of appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated November 30, 2010 addressed to yourselves and ourselves from Ernst & Young regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and behalf of
CCB International Capital Limited
Stanley Shih
Executive Director

For and behalf of
Piper Jaffray Asia Limited
Stacey Wong
Head of Investment Banking

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 August 2010 of the property interests of the Group.

Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

30 November 2010

The Board of Directors
China New Materials Holdings Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which China New Materials Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 August 2010 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Where, due to the nature of the buildings and structures of property interest in Group I and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interest has therefore been valued on the basis of its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with a modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interest in Group II which is currently under construction, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have also take into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have valued the property interest in Group III by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

We have attributed no commercial value to the property interests in Groups IV and V which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their value.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers, June He Law Offices, concerning the validity of the Group's titles of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects and satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong, the United Kingdom as well as relevant valuation experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interest held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 August 2010 *RMB*
1.	2 parcels of land various buildings and structures located at Haochun Road Dongying Economic Development Zone Dongying City Shandong Province The PRC	31,998,000
	Sub-total:	31,998,000

Group II – Property interest held under development by the Group in the PRC

No.	Property	Capital value in existing state as at 31 August 2010 *RMB*
2.	A parcel of land together with various buildings and structures located to the west of Baoshan Road and the north of Beiling Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province The PRC	103,964,000
	Sub-total:	103,964,000

Group III – Property interest held for future development by the Group in the PRC

No.	Property	Capital value in existing state as at 31 August 2010 *RMB*
3.	A parcel of land located to the south of Zhongrun Road and the west of Baoshan Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province The PRC	72,986,000
	Sub-total:	72,986,000

Group IV – Property interests leased and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 August 2010 *RMB*
4.	Units 103 and 201 on Levels 1 and 2 of a 5-storey building No. 138 Zhongrun Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province The PRC	No commercial value
5.	Units 602 and 603 on Level 6 of CITIC Bank Plaza No. 150 Liyuan Street Jinan City Shandong Province The PRC	No commercial value

No.	Property	Capital value in existing state as at 31 August 2010 *RMB*
6.	Units 203 and 204 on Level 2 of a 2-storey building No. 138 Zhongrun Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province The PRC	No commercial value
7.	A Building No. 165 Zhongrun Road Zibo National New & Hi-tech Industrial Park Zibo City Shangdong Province The PRC	No commercial value
	Sub-total:	Nil

Group V – Property interest leased and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at 31 August 2010 *RMB*
8.	Units 2012 and 2013 on 20th Floor Two Pacific Place 88 Queensway Hong Kong	No commercial value
	Sub-total:	Nil
	Grand total:	208,948,000

VALUATION CERTIFICATE

Group I – Property interest held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010 *RMB*
1.	2 parcels of land various buildings and structures located at Haochun Road Dongying Economic Development Zone Dongying City Shandong Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 137,587.37 sq.m. and 26 buildings and various ancillary structures erected thereon which were completed in various stages between 1994 and 2007. The buildings have a total gross floor area of approximately 17,710.51 sq.m. The buildings comprise 10 industrial buildings, 3 office buildings, a canteen, 7 warehouses, 2 fire control houses, a bath room, a garage and a guardroom. The structures mainly include sheds, boundary fences and roads. The land use rights of a parcel of land with a site area of approximately 89,730.87 sq.m. have been granted for a term expiring on 19 May 2044 for industrial use, and the land use rights of the remaining parcel of land with a site area of approximately 47,856.50 sq.m. have been leased for a term of 15 years expiring on 10 December 2024.	The property is currently occupied by the Group for production and office purposes.	31,998,000

Notes:

1. Dongying Shengli A&C Chemical Co., Ltd. ("Dongying Shengli") is a wholly-owned subsidiary of the Company.

2. Pursuant to a State-owned Land Use Rights Certificate – Dong Guo Yong (2004) Zi Di No. 469, the land use rights of a parcel of land with a site area of approximately 89,730.87 sq.m. have been granted to Dongying Shengli for a term expiring on 19 May 2044 for industrial use.

3. Pursuant to a tenancy agreement, a parcel of the land with a site area of approximately 47,856.50 sq.m. was leased to Dongying Shengli from China Petrochemical Corporation Shengli Petroleum Administration Bureau (the "Lessor") for a term of 15 years expiring on 10 December 2024 at an annual rent of RMB150,748 for industrial purpose.

4. Pursuant to 4 Building Ownership Certificates – Dong Fang Quan Zheng Hao Chun Lu Zi Di Nos. 004000 and 004002 to 004004, 17 buildings with a total gross floor area of approximately 10,273.51 sq.m. are owned by Dongying Shengli, which are erected on the land mentioned in note 2.

5. Pursuant to 2 Building Ownership Certificates – Dong Fang Quan Zheng Hao Chun Lu Zi Di Nos. 004001 and 004005, 9 buildings with a total gross floor area of approximately 7,437 sq.m. are owned by Dongying Shengli, which are erected on the leased land mentioned in note 3.

6. In the valuation of this property, we have attributed no commercial value to the leased land and 9 buildings with a total gross floor area of approximately 7,437 sq.m. (which are erected on the leased land mentioned in note 3). However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land element) as at the date of valuation would be RMB5,390,000 assuming all relevant title certificates had been obtained and the buildings could be freely transferred.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The land use rights of the land mentioned in note 2 are legally owned by Dongying Shengli and can be legally occupied, used, transferred, sublet, mortgaged or disposed of by Dongying Shengli in accordance with the valid term in the land use rights certificates;

   b. The building ownership rights mentioned in note 4 are legally owned by Dongying Shengli and can be legally occupied, used, transferred, sublet, mortgaged or otherwise disposed of by Dongying Shengli;

   c. The tenancy agreement mentioned in note 3 is legal, valid and binding on both signing parties, which has been registered with the local land administrative authority; the leased land can be legally occupied and used by Dongying Shengli in accordance with the stipulations of the tenancy agreement and the PRC laws. Dongying Shengli cannot transfer, mortgage or sublet the land use rights without the consent of the Lessor of the land mentioned in note 3;

   d. The building ownership rights mentioned in note 5 are legally owned by Dongying Shengli and can be legally occupied and used; but transferring, mortgaging or subletting these buildings should be restricted by the Lessor mentioned in note 3; and

   e. The land use rights mentioned in note 2 and the buildings of the property mentioned in notes 4 and 5 are not subject to seizure or any other parties' interests.

VALUATION CERTIFICATE

Group II – Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010 *RMB*
2.	A parcel of land together with various buildings and structures located to the west of Baoshan Road and the north of Beiling Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province The PRC	The property comprises a parcel of land with a site area of approximately 229,655 sq.m. with various buildings and structures which were being constructed on the land as at the date of valuation (the "CIP"). As advised by the Company, the CIP is scheduled to be completed in December 2010. Upon completion, the buildings will have a total gross floor area of approximately 10,990.36 sq.m. The land use rights of the property have been granted for a term of 50 years expiring on 1 July 2060 for industrial use.	The property is currently under construction.	103,964,000

Notes:

1. Shandong Full Win New Material Science and Technology Co., Ltd. ("Full Win New Material") is a wholly-owned subsidiary of the Company

2. Pursuant to a State-owned Land Use Rights Grant Contract – Zi Bo-01-2010-0032 (Gua) dated 2 July 2010, the land use rights of the property were contracted to be granted to Full Win New Material for a term of 50 years expiring on 1 July 2060 for industrial use. The land premium was RMB91,983,717.

3. Pursuant to a State-owned Land Use Rights Certificate – Zi Guo Yong (2010) Di No. F00173, the land use rights of a parcel of land with a site area of approximately 229,655 sq.m. have been granted to Full Win New Material for a term of 50 years expiring on 1 July 2060 for industrial use.

4. Pursuant to a Construction Work Planning Permit – K2010-072 in favour of Full Win New Material, the buildings with a total planned gross floor area of approximately 97,083 sq.m. have been approved for construction.

5. Pursuant to a Construction Work Commencement Permit – Jian Zi Di No. 370302 2010-067 in favour of Full Win New Material, permission by the relevant local authority was given to commence of the buildings with a total gross floor area of approximately 97,083 sq.m.

6. As advised by the Company, the total construction cost for the CIP is estimated to be approximately RMB35,211,500, of which RMB752,000 had been paid up to the date of valuation.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The land use rights of the property are legally owned by Full Win New Material and can be legally occupied, used, transferred, sublet, mortgaged or disposed of by Full Win New Material in accordance with the valid term in the land use rights certificate;

   b. The land use rights of the property are not subject to seizure or any other parties' interests; and

   c. After the Group completes the construction in accordance with relevant construction permits and finishes the registration, there is no legal impediment to obtain relevant building ownership certificates for the CIP.

VALUATION CERTIFICATE

Group III – Property interest held for future development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010 *RMB*
3.	A parcel of land located to the south of Zhongrun Road and the west of Baoshan Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province The PRC	The property comprises a parcel of land with a site area of approximately 178,015 sq.m. which is planned to be developed into an industrial plant. The land use rights of the property have been granted for a term of 50 years expiring on 16 November 2059 for industrial use.	The property is currently vacant.	72,986,000

Notes:

1. Shandong Full Win New Material Science and Technology Co., Ltd. ("Full Win New Material") is a wholly-owned subsidiary of the Company.

2. Pursuant to a State-owned Land Use Rights Grant Contract – Zi Bo-01-2009-0097 (Gua) dated 17 November 2009, the land use rights of the property were contracted to be granted to Full Win New Material for a term of 50 years expiring on 16 November 2059 for industrial use. The land premium was RMB71,300,000.

3. Pursuant to a State-owned Land Use Rights Certificate – Zi Guo Yong (2010) Di No. F00132, the land use rights of a parcel of land with a site area of approximately 178,015 sq.m. have been granted to Full Win New Material for a term of 50 years expiring on 16 November 2059 for industrial use.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The land use rights of the property are legally owned by Full Win New Material and can be legally occupied, used, transferred, sublet, mortgaged or disposed of by Full Win New Material in accordance with the valid term in the land use rights certificate; and

   b. The land use rights of the property are not subject to seizure or any other parties' interests.

VALUATION CERTIFICATE

Group IV – Property interests leased and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010 *RMB*
4.	Units 103 and 201 on Levels 1 and 2 of a 5-storey building No. 138 Zhongrun Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province The PRC	The property comprises 2 office units on Levels 1 and 2 of a 5-storey office building completed in about 2002. The property has a total lettable area of approximately 100 sq.m.. Pursuant to a tenancy agreement, the property is leased to Dongying Shengli from Shandong Quanxin Stainless Steel Co., Ltd., a related party, for a term of 2 years expiring on 30 June 2012 at an annual rent of RMB60,955, inclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Dongying Shengli A&C Chemical Co., Ltd. ("Dongying Shengli") is a wholly-owned subsidiary of the Company.

2. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zi Bo Gao Xin Qu Zi Di No. 03-1001535, a building with a total gross floor area of approximately 3,273.75 sq.m. is owned by Shandong Quanxin Stainless Steel Co., Ltd. for office use, which includes the property. Dongying Shengli occupies and uses the leased property in accordance with the prescribed use stated in the building ownership certificate.

3. Pursuant to a document issued by Zibo Real Estate Administrative Bureau, the building mentioned in note 2 is not subject to any mortgage.

4. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The tenancy agreement is legal and valid, but has not been registered with the relevant real estate administrative authority; and

   b. Non-registration of the lease will not affect the validity of the tenancy agreement because (i) Administration Measures for Lease of Houses in City, which was promulgated by Ministry of Construction on April 28, 1995, does not provide that non-registration of a lease shall affect the validity of the tenancy agreement; and (ii) non-registration of a lease does not fall into the circumstances that will invalidate a contract under the PRC Contract Law.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010 *RMB*
5.	Units 602 and 603 on Level 6 of CITIC Bank Plaza No. 150 Liyuan Street Jinan City Shandong Province The PRC	The property comprises 2 office units on Level 6 of a 14-storey office building completed in about 1998. The property has a gross floor area of approximately 232.9 sq.m.. Pursuant to a tenancy agreement, the property is leased to Dongying Shengli from Beijing Xinlong Property Management Co., Ltd. (the "Lessor"), an independent third party, for a term of 2 years expiring on 31 July 2012 at an annual rent of RMB196,114.50, inclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Dongying Shengli A&C Chemical Co., Ltd. ("Dongying Shengli") is a wholly-owned subsidiary of the Company.

2. Pursuant to a Building Ownership Certificate – Ji Fang Quan Zheng Li Zi Di No. 076194, a building with a total gross floor area of approximately 32,190.58 sq.m. is owned by China Citic Bank Jinan Branch (the "Landlord") for office use, which includes the property. Dongying Shengli occupies and uses the leased property in accordance with the prescribed use stated in the building ownership certificate.

3. Pursuant to a document issued by Jinan Real Estate Administrative Bureau, the building mentioned in note 2 is not subject to any mortgage.

4. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The tenancy agreement is legal and valid, but has not been registered with the relevant real estate administrative authority;

   b. Non-registration of the lease will not affect the validity of the tenancy agreement because (i) Administration Measures for Lease of Houses in City, which was promulgated by Ministry of Construction on April 28, 1995, does not provide that non-registration of a lease shall affect the validity of the tenancy agreement; and (ii) non-registration of a lease does not fall into the circumstances that will invalidate a contract under the PRC Contract Law; and

   c. The Landlord has authorized the Lessor to manage the building, and the Lessor is entitled to lease the property to Dongying Shengli.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010 *RMB*
6.	Units 203 and 204 on Level 2 of a 2-storey building No. 138 Zhongrun Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province The PRC	The property comprises 2 office units on Level 2 of a 2-storey office building completed in about 2002. The property has a total lettable area of approximately 76 sq.m.. Pursuant to a tenancy agreement, the property is leased to Full Win New Materials from Shandong Quanxin Stainless Steel Co., Ltd., a related party, for a term of 2 years expiring on 22 March 2011 at an annual rent of RMB50,000, inclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Shandong Full Win New Material Science and Technology Co., Ltd. ("Full Win New Material") is a wholly-owned subsidiary of the Company.

2. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zi Bo Gao Xin Qu Zi Di No. 03-1001536, a building with a total gross floor area of approximately 2,750.52 sq.m. is owned by Shandong Quanxin Stainless Steel Co., Ltd. for office use, which includes the property. Full Win New Material occupies and uses the leased property in accordance with the prescribed use stated in the building ownership certificate.

3. Pursuant to a document issued by Zibo Real Estate Administrative Bureau, the building mentioned in note 2 is not subject to any mortgage.

4. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The tenancy agreement is legal and valid, but has not been registered with the relevant real estate administrative authority; and

   b. Non-registration of the lease will not affect the validity of the tenancy agreement because (i) Administration Measures for Lease of Houses in City, which was promulgated by Ministry of Construction on April 28, 1995, does not provide that non-registration of a lease shall affect the validity of the tenancy agreement; and (ii) non-registration of a lease does not fall into the circumstances that will invalidate a contract under the PRC Contract Law.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010 *RMB*
7	A building No. 165 Zhongrun Road Zibo National New & Hi-tech Industrial Park Zibo City Shandong Province The PRC	The property comprises a single-storey building completed in 2010. The property has a gross floor area of approximately 1,344 sq.m.. Pursuant to a tenancy agreement, the property is leased to Full Win New Material from Sai Li Ou (Zibo) Mechanical and Electrical Co., Ltd., an independent third party, for a term of one year expiring on 30 August 2011 at an annual rent of RMB241,920, exclusive of water charge, electricity charge, heating charge and other charges.	The property is currently occupied by the Group for testing and trial production purpose.	No commercial value

Notes:

1. Shandong Full Win New Material Science and Technology Co., Ltd. ("Full Win New Material") is a wholly-owned subsidiary of the Company

2. Pursuant to a Building Ownership Certificate – Zi Bo Shi Fang Quan Zheng Zi Bo Gao Xin Qu Zi Di No. 31-1014607 a building with a total gross floor area of approximately 1,344 sq.m. is owned by Sai Li Ou (Zibo) Mechanical and Electrical Co., Ltd. for production purpose. Full Win New Material occupies and uses the leased property in accordance with the proscribed use stated in the building ownership certificate.

3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Full Win New Material is entitled to use and occupy the leased property according to the tenancy agreement. The tenancy agreement is legal and valid, but has not been registered with the relevant real estate administrative authority; and

   b. Non-registration of the lease will not affect the validity of the tenancy agreement because (i) Administration Measures for Lease of Houses in City, which was promulgated by Ministry of Construction on April 28, 1995, does not provide that non-registration of a lease shall affect the validity of the tenancy agreement; and (ii) non-registration of a lease does not fall into the circumstances that will invalidate a contract under the PRC Contract Law.

VALUATION CERTIFICATE

Group V – Property interest leased and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2010 *RMB*
8.	Units 2012 and 2013 on 20th Floor Two Pacific Place 88 Queensway Hong Kong	The property comprises 2 office units on the 20th floor of a 27-storey office building completed in 1990. The property has a total lettable area of approximately 3,335 sq.ft. (309.83 sq.m.). Pursuant to a Tenancy Agreement, the property is leased to Mint World (HK) Limited from Pacific Place Holdings Limited, an independent third party, for a term of 3 years commencing from 11 January 2010 and expiring on 10 January 2013 at a monthly rent of HK$263,500 exclusive of government rates, air-conditioning and management charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. The registered owner of the property is Pacific Place Holdings Limited vide Memorial No. UB5713623 dated 30 March 1993.

2. Mint World (HK) Limited is a wholly-owned subsidiary of the Company.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 27, 2009 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on November 16, 2010. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the board may determine. Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from September 29, 2009.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 27, 2009 under the Cayman Companies Law. At the time of incorporation, the name of our Company was "China New Materials (Zhongpu) Holdings Limited (中國新材料(中普)控股有限公司)". The name of our Company was subsequently changed to "China Enviro New Materials Holdings Limited (中國環保新材控股有限公司)" on December 14, 2009 and then to its current name, "China New Materials Holdings Limited (中國新材控股有限公司)" on October 28, 2010. Our Company has established a principal place of business in Hong Kong at Suites 2012-2013, Level 20, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong, and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on October 22, 2009. Li & Partners of 22/F., World Wide House, Central, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notice on behalf of our Company in Hong Kong at the above address.

As our Company was incorporated in the Cayman Islands, it operates subject to Cayman Islands law and its constitution comprising the Memorandum and the Articles of Association. A summary of certain provisions of the constitution and relevant aspects of the Cayman Islands company law is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

The authorized share capital of our Company as at the date of its incorporation was HK$1,000,000 divided into 100,000,000 Shares of HK$0.01 each.

On August 27, 2009, one nil-paid Share was allotted and issued to the initial subscriber who then transferred the same to Apex Wide at par value on the same date. The one nil-paid Share held by Apex Wide was fully paid at par on November 16, 2010.

On April 30, 2010, our Company allotted and issued at par value 99 Shares to Apex Wide.

On April 30, 2010, Apex Wide sold 3 Shares to China Angel for a consideration of HK$37,500,000 pursuant to the sale and purchase agreement between Apex Wide and China Angel dated April 25, 2010 and the supplemental agreement thereto dated April 29, 2010. Upon completion of such sale, our Company was held as to 97% and 3% by Apex Wide and China Angel respectively.

On May 12, 2010, Apex Wide sold 1 Share to China Angel for a consideration of HK$12,500,000 pursuant to the sale and purchase agreement between Apex Wide and China Angel dated May 12, 2010. On the same day, Apex Wide sold 2 Shares to CIG for a consideration of HK$25,000,000 pursuant to the sale and purchase agreement between

Apex Wide and CIG dated May 12, 2010. Upon completion of such sales, our Company was held as to 94%, 4% and 2% by Apex Wide, China Angel and CIG respectively.

On August 11, 2010, Apex Wide sold 9 shares to Sun Ascent for HK$90,000,000 pursuant to the sale and purchase agreement dated November 16, 2009. Upon completion of such sale, our Company was held as to 85%, 9%, 4% and 2% by Apex Wide, Sun Ascent, China Angel and CIG respectively.

On August 12, 2010, Apex Wide sold 5 Shares to Blue Skies for a consideration of HK$70,000,000 pursuant to the sale and purchase agreement between Apex Wide and Blue Skies dated August 12, 2010. Upon completion of such sale, our Company was held as to 80%, 9%, 4%, 5% and 2% by Apex Wide, Sun Ascent, China Angel, Blue Skies and CIG respectively.

On November 16, 2010, the authorized share capital of our Company was increased to HK$20,000,000 divided into 2,000,000,000 Shares of HK$0.01 each.

On November 16, 2010, our Company allotted and issued 80 Shares to Apex Wide, all credited as fully paid, in satisfaction of the repayment of all the shareholder's loan owed by our Group to Apex Wide and Mr. Zhang as at November 16 2010 which amounted to RMB401,709,487 (the "**Capitalization of Shareholder's Loan**"). On the same day, our Company allotted and issued 2 Shares, 4 Shares, 9 Shares and 5 Shares, all credited as fully paid at par, to CIG, China Angel, Sun Ascent and Blue Skies respectively (the "**Further Issue**"). Upon completion of the Capitalization of Shareholder's Loan and the Further Issue, there was no change in the shareholding structure of the Company and our Company was held as to 80%, 9%, 4%, 5% and 2% by Apex Wide, Sun Ascent, China Angel, Blue Skies and CIG respectively.

Assuming that the Global Offering becomes unconditional and the Offer Shares are issued, our issued share capital upon completion of the Capitalization Issue and the Global Offering will be HK$11,700,000 divided into 1,170,000,000 Shares of HK$0.01 each (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme).

Save as disclosed in this Appendix and as disclosed in the section headed "History, Reorganization and Corporate Structure" in this prospectus, there has been no alteration in the share capital of our Company since the date of our incorporation.

3. Resolutions in writing of all our Shareholders passed on November 16, 2010

Pursuant to written resolutions passed by all our Shareholders on November 16, 2010, the following resolutions, among other resolutions, were duly passed:

(a) our Company conditionally approved and adopted the Articles of Association;

(b) the authorized share capital of our Company be increased from HK$1,000,000 to HK$20,000,000 by the creation of an additional 1,900,000,000 Shares;

(c) conditional on (i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme); (ii) the entering into of the agreement on the Offer Price between the Joint Global Coordinators (for and on behalf of the Underwriters) and the Company on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

(i) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue new Shares under the Global Offering and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;

(ii) conditional on (i) the share premium account of the Company being credited as a result of the Global Offering; (ii) completion of the transfer of such number of Shares from Apex Wide to IAM in accordance with the September 2009 Notes Subscription Agreement; and (iii) completion of the transfer of such number of Shares from Apex Wide to CCAM and CIG in accordance with the November 2009 Notes Subscription Agreement and the Amendment Agreement, to approve and authorize the Directors to allot and issue a total of 877,499,800 Shares, credited as fully paid at par, to holders of Shares whose names appear on the principal register of members of the Company in the Cayman Islands as at 10:00 p.m. (Hong Kong Time) of the Business Day immediately preceding the Listing Date in proportion (or as nearly as possible without involving fractions) to their then existing shareholding in the Company, by way of capitalization of HK$8,774,998 standing to the credit of the share premium account of the Company and applying such sum of HK$8,774,998 in paying up in full at par 877,499,800 Shares for such allotment and issue, each ranking *pari passu* in all respects with the then existing issued Shares;

(iii) the rules of the Share Option Scheme were approved and adopted, and our Directors were hereby authorized, at their absolute discretion, to (i) administer the Share Option Scheme, (ii) modify/amend the Share Option Scheme from time to time as requested by the Stock Exchange, (iii) grant options to subscribe for Shares under the Share Option Scheme, (iv) allot, issue and deal with the Shares issued pursuant to the Share Option Scheme, (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme and (vi) take all such steps as they consider necessary or desirable to implement the Share Option Scheme.

(d) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by our Shareholders in a general meeting, Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue, such mandate to remain in effect until (i) the conclusion of the next annual general meeting of our Company, (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or (iii) until revoked or varied by an ordinary resolution of our Shareholders in general meeting of our Company, whichever occurs first;

(e) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Hong Kong Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue, such mandate to remain in effect until (i) the conclusion of the next annual general meeting of our Company, (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or (iii) until revoked or varied by an ordinary resolution of our Shareholders in general meeting of our Company, whichever occurs first; and

(f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

4. Corporate reorganization

For information with regard to our Reorganization, please see the section headed "History, Reorganization and corporate structure" in this prospectus.

5. Changes in share capital of our subsidiaries

Our subsidiaries are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital or registered capital of our subsidiaries have taken place within the two years preceding the date of this prospectus:

(a) Eminent Gains (BVI)

The authorized share capital of Eminent Gains as at the date of its incorporation was US$50,000 divided into 50,000 shares of US$1 each. On August 24, 2009, Eminent Gains allotted and issued 1 share to Mr. Zhang at par value.

On September 25, 2009, Mr. Zhang transferred 1 share of Eminent Gains to our Company at par value.

(b) Mint World (HK)

The authorized share capital of Mint World as at the date of its incorporation was HK$10,000 divided into 10,000 shares of HK$1 each. On February 12, 2008, one subscriber share was allotted and issued to the initial subscriber who in turn transferred the same to Max Talent.

On September 1, 2009, Mint World allotted and issued 999 shares to Eminent Gains at par value. On the same day, Max Talent transferred its 1 share of Mint World to Eminent Gains at par value.

(c) King General (HK)

The authorized share capital of King General as at the date of its incorporation was HK$10,000 divided into 10,000 shares of HK$1 each. On August 18, 2009, King General allotted and issued one subscriber share to the initial subscriber who in turn transferred the same to Full Smart on September 23, 2009 at par value.

(d) Dongying Shengli (PRC)

On August 28, 2003, Dongying Shengli was established in the PRC as a WFOE with registered capital of RMB40,000,000.

On October 11, 2007, the registered capital of Dongying Shengli was increased from RMB40,000,000 to RMB180,000,000.

On November 26, 2010, Full Smart transferred the entire registered capital of Dongying Shengli to King General at a consideration of US$1.

(e) Full Win New Material (PRC)

On April 2, 2008, Full Win New Material was established by Mint World in the PRC as a WFOE with registered capital of HK$230,000,000.

On March 2, 2010, the registered capital of Full Win New Material was increased from HK$230,000,000 to HK$238,000,000.

(f) Full Smart (Samoa)

On October 25, 2000, Full Smart was incorporated in Samoa with an authorized share capital of US$1,000,000 divided into 1,000,000 shares of a nominal value of US$1 each. On November 30, 2000, one unpaid bearer share of US$1 was allotted and issued by Full Smart to Mr. Xu Tieliang, an Independent Third Party.

On November 20, 2003, Mr. Xu Tieliang exchanged one bearer share for a registered share of Full Smart at par value and on the same date, transferred this one share at par value to Smart Rise.

On November 27, 2003, Smart Rise transferred 85% shareholding interests in Full Smart to Mr. Zhang at a consideration of RMB47.5 million. On the same date, Mr. Zhang and Mr. Xu Tieliang reached the Entrustment Arrangement whereby it was agreed that Mr. Xu Tieliang shall hold the 85% shareholding interests in Full Smart through Smart Rise on trust for Mr. Zhang since December 23, 2003.

On February 5, 2004, 99 shares of Full Smart were allotted and issued at par value to Smart Rise. On the same date, Mr. Zhang and Mr. Xu Tieliang agreed to terminate the Entrustment Arrangement between them and Smart Rise transferred the legal interest of 85 shares of Full Smart to Mr. Zhang at par value.

On September 21, 2007, Smart Rise transferred 15 shares of Full Smart to Mr. Zhang at a consideration of RMB3.6 million.

On September 25, 2009, Mr. Zhang transferred his 100 shares of Full Smart to our Company at par value.

Save for the aforesaid and as disclosed in the section headed "History, Reorganization and Corporate Structure" in this prospectus, there has been no alteration in the share capital of any subsidiary of our Company within the two years preceding the date of this prospectus.

6. Particulars of our PRC establishments

Our Company has the following subsidiaries established in the PRC, the basic information of which as at the Latest Practicable Date is set out as follows:

(a) Dongying Shengli:

(i)	Corporate nature:	WFOE
(ii)	Shareholder:	King General
(iii)	Registered capital:	RMB180,000,000
(iv)	Total investment:	RMB220,000,000
(v)	Date of incorporation:	August 28, 2003
(vi)	General nature of business:	Production and sale of chemical products such as THF (until June 6, 2013), BDO and GBL, research and development of new products and provision of technical and information consulting services
(vii)	Interest held by us	100%

(b) Full Win New Material:

(i)	Corporate nature:	WFOE
(ii)	Shareholder:	Mint World
(iii)	Registered capital:	HK$238,000,000
(iv)	Total investment:	HK$570,000,000
(v)	Date of incorporation:	April 2, 2008
(vi)	General nature of business:	Development of projects in relation to production of 1-4 BDO, THF, GBL and degradable plastics (no production activity is permitted during the project development stage until October 1, 2010; valid Approval Certificate for Goods Subject to Administrative Supervision and Control up to March 27, 2011; valid Recommendation on Safety Control of Dangerous Chemicals Development Project up to March 24, 2011)
(vii)	Interest held by us	100%

7. Repurchase of our Shares

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listings are on the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders' approval

All proposed repurchases of securities on the Hong Kong Stock Exchange by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the resolutions passed by all our Shareholders on November 16, 2010, a general unconditional mandate was granted to the Directors authorizing the repurchase by our Company on the Hong Kong Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable laws or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of then Shareholders in general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases by us must be funded out of funds legally available for the purpose in accordance with the Articles and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from Shareholders to enable our Company to repurchase Shares in the market. Repurchases of our Shares will only be made when the Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands. Any repurchase of Shares will be made out of the profits of our Company or out of a fresh issue of Shares made for the purpose of the purchase or, if authorized by the Articles and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company, or if authorized by the Articles and subject to the Cayman Companies Law, out of capital. There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for our Company.

(d) General

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or its subsidiaries.

The Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

No Connected Person has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. The Directors are not aware of any consequences which may arise under the Takeover Code if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

(a) an instrument of transfer dated September 1, 2009, by which Max Talent transferred 1 share of Mint World to Eminent Gains at a consideration of HK$1;

(b) a bought and sold note dated September 1, 2009, by which Max Talent transferred 1 share of Mint World to Eminent Gains at a consideration of HK$1;

(c) an instrument of transfer dated September 23, 2009, by which Company Kit Secretarial Services Limited transferred 1 share of King General to Great Boom Holdings Limited (now known as Full Smart Development Limited) at a consideration of HK$1;

(d) a bought and sold note dated September 23, 2009, by which Company Kit Secretarial Services Limited transferred 1 share of King General to Great Boom Holdings Limited (now known as Full Smart Development Limited) at a consideration of HK$1;

(e) an instrument of transfer dated September 25, 2009, by which Mr. Zhang transferred 1 share of Eminent Gains to our Company at a consideration of US$1;

(f) an instrument of transfer dated September 25, 2009, by which Mr. Zhang transferred 100 shares of Great Boom Holdings Limited (now known as Full Smart Development Limited) to our Company at a consideration of US$100;

(g) an enterprise strategic development consultancy agreement (企業戰略發展顧問協議) (the "**Consultancy Agreement**") dated July 3, 2009 entered into between Full Win New Material and China Sun Fund Management Limited (中國陽光投資基金管理有限公司) ("**China Sun Fund**"), pursuant to which China Sun Fund Management Limited agreed to provide consultancy service to Full Win New Material at a consideration as agreed in the Consultancy Agreement;

(h) a termination agreement (終止協議) dated November 16, 2009 entered into between Full Win New Material and China Sun Fund, pursuant to which the Consultancy Agreement was terminated with immediate effect;

(i) an equity transfer agreement (股權轉讓協議) dated March 23, 2010 entered into between Full Smart and King General, pursuant to which Full Smart transferred the entire registered capital of Dongying Shengli to King General at a consideration of US$1;

(j) a state-owned construction land use right transfer agreement（國有建設用地使用權出讓合同）dated July 2, 2010 entered into between Full Win New Material and Zibo City Land Resources Bureau (淄博市國土資源局), pursuant to which Full Win New Material acquired the land use right of a parcel of land located at the west of Baoshan Road and the north of Beiling Road, Zhangdian District from Zibo City Land Resources Bureau (淄博市國土資源局) at a consideration of RMB91,983,717;

(k) an indemnification agreement dated November 16, 2010 entered into between Wu Chi Chiu and our Company, pursuant to which our Company agreed to indemnify Mr. Wu in certain circumstances, details of which are set out in the paragraph headed "IAM" in the sub-section headed "Pre-IPO Investors" in the section headed "History, Reorganization and Corporate Structure" in this prospectus;

(l) a loan agreement dated October 22, 2009 entered into between Mint World and Integrated Asset Management Co. Ltd. for an advancement of HK$8 million;

(m) the Deed of Non-competition Undertaking dated November 17, 2010 entered into among Mr. Zhang, Apex Wide and our Company, details of which are disclosed in the sections headed "Relationship with our Controlling Shareholders" in this prospectus;

(n) a deed of indemnity dated November 17, 2010 entered into among Mr. Zhang, Apex Wide and our Company, pursuant to which Mr. Zhang and Apex Wide have agreed to give certain indemnities in favour of our Company for itself and as trustee for its subsidiaries;

(o) an equity transfer agreement (股權轉讓協議) dated November 26, 2010 entered into between Full Smart and King General, pursuant to which Full Smart transferred the entire registered capital of Dongying Shengli to King General at a consideration of US$1;

(p) an amended and restated deed of indemnity dated November 27, 2010 entered into among Mr. Zhang, Apex Wide and our Company, pursuant to which Mr. Zhang and Apex Wide have agreed to give certain indemnities in favour of our Company for itself and as trustee for its subsidiaries containing, among

others, the indemnities referred to the paragraph headed" Deed of Indemnity" under the section headed" Other Information" in Appendix VI to this prospectus; and

(p) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, we had registered the following trademarks:

Trademark	Name of owner	Place of registration	Class	Registration number	Registration date	Expiry date
	our Company	Hong Kong	1	301488763	December 2, 2009	December 1, 2019
	Dongying Shengli	PRC	1	6556160	March 28, 2010	March 27, 2020
YCST	Dongying Shengli	PRC	1	6556161	March 28, 2010	March 27, 2020

(b) Domain Name

As at the Latest Practicable Date, we had registered the following domain name:

Domain name	Registrant	Registration date	Expiry date
china-newmaterials.com.hk	our Company	October 28, 2010	October 28, 2011

The information contained on the above website does not constitute part of this prospectus.

Save as disclosed herein, there are no other trade or service marks, patents, other intellectual property rights which are material to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

Immediately following completion of the Global Offering, the Capitalization Issue, the exchange of the September 2009 Exchangeable Notes by IAM and the exchange of the November 2009 Exchangeable Notes by CCAM and CIG, and taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the interest or short position of the Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Hong Kong Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed are as follows:

Name of Director	Nature of interest	Number of Shares[(1)]	Approximate percentage of shareholding
Mr. Zhang[(2)]	Interest of a controlled corporation	473,850,000(L)	40.5%
Mr. Qin Kebo[(3)]	Interest of a controlled corporation	78,975,000(L)	6.75%

Notes:

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) The entire issued share capital of Apex Wide is owned by Mr. Zhang, therefore, Mr. Zhang is deemed to be interested in the 473,850,000 Shares held by Apex Wide under the provisions of SFO.

(3) The entire issued share capital of Sun Ascent is owned by Mr. Qin Kebo, therefore, Mr. Qin Kebo is deemed to be interested in the 78,975,000 Shares held by Sun Ascent under the provisions of SFO.

2. Substantial Shareholders

So far as our Directors are aware, immediately following completion of the Global Offering, the Capitalization Issue, the exchange of the September 2009 Exchangeable Notes by IAM and the exchange of the November 2009 Exchangeable Notes by CCAM and CIG, and taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the following persons (other than the Directors and the chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or underlying Shares which will be required to be disclosed to our Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or are directly or indirectly, interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name of Shareholder	Nature of interest	Number of Shares[(1)]	Approximate percentage of shareholding
Apex Wide[(2)]	Beneficial owner	473,850,000(L)	40.5%
Mr. Zhang[(2)]	Interest of a controlled corporation	473,850,000(L)	40.5%
Sun Ascent[(3)]	Beneficial owner	78,975,000(L)	6.75%
Mr. Qin Kebo[(4)]	Interest of a controlled corporation	78,975,000(L)	6.75%
IAM[(5)]	Beneficial owner	122,850,000(L)	10.5%
Mr. Yam Tak Cheung[(6)]	Interest of a controlled corporation	122,850,000(L)	10.5%
CCAM [(7)]	Beneficial owner	70,200,000(L)	6.0%
Well Kent [(7)]	Interest of a controlled corporation	70,200,000(L)	6.0%
China Cinda [(7)]	Interest of a controlled corporation	70,200,000(L)	6.0%

Note:

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) Apex Wide is wholly owned by Mr. Zhang. Therefore, Mr. Zhang is deemed to be interested in the 473,850,000 Shares which Apex Wide will hold upon Listing.

(3) The entire issued share capital of Sun Ascent is legally and beneficially owned by Mr. Qin Kebo, a non-executive Director.

(4) Mr. Qin Kebo is interested in the entire issued share capital of Sun Ascent and is therefore deemed to be interested in the 78,975,000 Shares which Sun Ascent will hold upon Listing.

(5) The entire issued share capital of IAM is legally and beneficially owned by Mr. Yam Tak Cheung.

(6) Mr. Yam Tak Cheung is interested in the entire issued share capital of IAM and is therefore deemed to be interested in the 122,850,000 Shares which IAM will hold upon Listing.

(7) The entire issued share capital of CCAM is legally and beneficially owned by Well Kent, which is in turn wholly-owned by China Cinda. As such, each of Well Kent and China Cinda is deemed to be interested in the 70,200,000 Shares which CCAM will hold upon Listing.

Save as disclosed above, the Directors confirm that they are not aware of any persons who will immediately following completion of the Global Offering, the Capitalization Issue, the exchange of the September 2009 Exchangeable Notes by IAM and the exchange of the November 2009 Exchangeable Notes by CCAM and CIG, be interested or deemed to be interested under Part XV of the SFO in 10% or more of the Shares then in issue, or who have interests of short positions in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. Particulars of Directors' service contracts

(a) Each of the executive Directors has entered into a service contract with our Company. Particulars of these contracts, except as indicated, are in all material respects identical and are summarized below:

(i) each of the executive Directors is appointed for an initial term of three years commencing from the Listing Date;

(ii) each of the executive Directors is entitled to the respective annual salary set out below (subject to an annual review);

(iii) each of the executive Directors is entitled to an annual discretionary bonus and a year end payment after working for 12 months. In the event the service period of the executive Director is less than 12 months in the relevant financial year, the annual year end payment will be distributed on a pro rata basis;

(iv) subject to terms of the service contract, each service contract may be terminated by either party thereto giving to the other party not less than three months' prior notice in writing; and

(v) the basic annual salaries of the executive Directors are as follows:

Name of Executive Director	Annual salary *(RMB)*
Zhang Kaijun (張凱鈞)	1,080,000
Huang Cheng (黃澄)	960,000
Lu Wei (盧偉)	960,000
Wong Yee Shuen Wilson (黃以信)	960,000

(b) Each of the non-executive Directors has entered into a letter of appointment with our Company. Particulars of these letters of appointment, except as indicated, are in all material respects identical and are summarized below:

(i) each of the non-executive Directors is appointed for an initial term of three years commencing from the Listing Date;

(ii) each of the non-executive Directors is entitled to the respective annual salary set out below (subject to an annual review); and

(iii) the annual fees of the non-executive Directors are as follows:

Name of non-executive Director	Annual Director's fee *(RMB)*
Qin Kebo (秦克波)	720,000
Wu Chi Chiu (胡志釗)	720,000

(c) Each of the independent non-executive Directors has entered into a letter of appointment with our Company. Particulars of these letters of appointment, except as indicated, are in all material respects identical and are summarized below:

(i) each of the independent non-executive Directors is appointed for an initial term of three years commencing from the Listing Date;

(ii) each of the letters of appointment may be terminated by either party thereto giving to the other party not less than three months' prior notice in writing; and

(iii) the annual fees of the independent non-executive Directors are as follows:

Name of independent non-executive Director	**Annual Director's fee** *(RMB)*
Chan Ngai Sang Kenny (陳毅生)	312,000
Guo Tianyong (郭田勇)	312,000
Lee Kwan Hung (李均雄)	312,000

4. Directors' remuneration

For each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, the aggregate of the remuneration paid and benefits in kind granted to the Directors by our Group were approximately RMB74,000, RMB409,000, RMB404,000 and RMB168,000. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus.

Under the arrangements currently in force, the estimated amount of Directors' fees and other emoluments payable to the Directors for the year ending December 31, 2010 will be approximately RMB898,000.

5. Related party transactions

Our Group entered into certain related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note 29 of the Accountants' Report set out in Appendix I to this prospectus.

6. Agency fees or commissions received

Save as disclosed in the section headed "History, Reorganization and Corporate Structure" in this prospectus, no commissions, discounts, brokerage or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any shares or loan capital of any member of our Group.

7. Disclaimers

Save as disclosed herein:

(a) none of the Directors or the chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Hong Kong Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;

(b) none of the Directors or experts referred to under the paragraph headed "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus in which a Director is materially interested and which is significant in relation to the business of our Group;

(d) none of the Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) taking no account of Shares which may be taken up under the Global Offering, none of our Directors are aware of any person (not being a Director or the chief executive of our Company) who will, immediately following completion of the Global Offering and the Capitalization Issue, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;

(f) none of the experts referred to under the under the paragraph headed "Consents of experts" in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

(g) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules), or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interest in our Group's five largest customers and five largest suppliers.

D. SHARE OPTION SCHEME

1. Summary of terms

The following is a summary of the principal terms of the Share Option Scheme (the "**Scheme**") which was conditionally approved by a written resolution of the shareholders of our Company passed on November 16, 2010 (the "**Adoption Date**"):

For the purpose of this section, unless the context otherwise requires:

"**Date of Grant**" means date of grant of the Option in accordance with the Scheme;

"**Grantee**" means any Eligible Person (as defined below) who accepts an offer of grant of any Option in accordance with the terms of the Scheme of (where the context so permits) a person who is entitled, in accordance with the laws of succession, to any Option in consequence of the death of the original Grantee;

"**Option**" means a right to subscribe for Shares granted pursuant to the Scheme;

"**Option Period**" means the period of time where the Grantee may exercise the Option, which period shall not be more than 10 years from the Date of Grant;

"**Shares**" means shares of HK$0.01 each in the capital of our Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of our Company from time to time);

(1) Who may join

The Directors may at their absolute discretion grant Options to all Directors (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to our Company or our Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to our Company or our Group and each of the persons mentioned above is referred to as an "**Eligible Person**".

(2) Purpose of the Scheme

The purpose of the Scheme is to provide person(s) and parties working for the interests of our Group with an opportunity to obtain an equity interest in our Company, thus linking their interests with the interests of our Group and thereby providing them with an incentive to work better for the interests of our Group.

(3) Conditions

The Scheme shall take effect subject to and is conditional upon:

(i) the passing of the necessary resolution to approve and adopt the Scheme by our Shareholders in a general meeting;

(ii) the Listing Committee granting approval of the Listing of, and permission to deal in, any Shares which may be issued pursuant to the exercise of Options granted under the Scheme;

(iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise; and

(iv) the commencement of dealings in the Shares on the Hong Kong Stock Exchange.

(4) Duration and administration

The Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the tenth anniversary of the Adoption Date (the "**Scheme Period**"), after which period no further options shall be granted but the provisions of the Scheme shall remain in full force and effect in all other respects in respect of Options remaining outstanding and exercisable on the expiry of the Scheme Period.

The Scheme shall be subject to the administration of the Board whose decision (save as otherwise provided in the Scheme) shall be final and binding on all parties.

(5) Grant of Options

An offer of the grant of an Option shall be made to an Eligible Person in writing in such form as the Board may from time to time determine specifying, *inter alia*, the maximum number of Shares in respect of which such offer is made and requiring the Eligible Person to undertake to hold the Option on the terms of which it is to be granted and to be bound by the provisions of the Scheme and shall remain open for acceptance by the Eligible Person to whom the offer is made for a period of 21 days (or such other period as the Board may determine) from the date upon which the offer is issued provided that no such offer shall be open for acceptance after the expiry of the Scheme Period or after the Scheme has been terminated in accordance with the terms of the Scheme.

On and subject to the terms of the Scheme, the Board shall be entitled at any time during the Scheme Period to offer to grant an Option to any Eligible Person as the Board may at its absolute discretion select, and subject to such conditions and restrictions as the Board may think fit.

An offer shall be deemed to have been accepted when the duplicate letter comprising acceptance of the Option, duly signed by the Eligible person, together with the remittance of HK$1 in favor of our Company, irrespective of the number of Shares in respect of which the Option is accepted, as consideration for the grant is received by our Company.

The Date of Grant shall be the date on which the offer relating to such Option is duly approved by the Board in accordance with the Scheme.

(6) Price sensitive information

No offer to grant Options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Options may be offered to be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified by our Company to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any year or half year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement. Such period shall cover any period of delay in the publication of a results announcements. Any grant of Options to an Eligible Person who is a Director shall also be subject to the restructions imposed by Code A 3(a) in the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 to the Listing Rules) on dealings of our Company's securities by the Directors.

(7) Grant of Options to connected persons

Where a grant of Option(s) to a Connected Person of our Company under the Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Option).

Where any Options granted to a Substantial Shareholder of our Company or an independent non-executive Director or any of their respective associates would result in the number and value of Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding but excluding Options which have lapsed) to such person in the 12-month period up to and including the date of such grant (i) exceeding in aggregate over 0.1% of the Shares in issue; and (ii) exceeding an aggregate value, (based on the closing price of the Shares on the Hong Kong Stock Exchange at the Date of Grant) in excess of HK$5 million, such further grant of Options must be approved by the Shareholders by taking of a poll in a general meeting. Our Company must send a circular to the Shareholders. All Connected Persons of our Company must abstain from voting (except that any Connected Person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular) at the general meeting. The circular must contain: (i) detail of the number and terms (including the Subscription Price (as defined below)) of the Options to be granted to each Eligible Person, which must be fixed before the general meeting concerned; (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the Grantee of the Options) to the independent shareholders as to voting; and (iii) the information required under the relevant provisions of Chapter 17 of the Listing Rules.

(8) Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may at its absolute discretion determine at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option (the "Subscription Price")), but in any case the Subscription Price must be at least the highest of (i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the Date of Grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the Date of Grant; and (iii) the nominal value of a Share. For the purpose of calculating the Subscription Price where our Company has been listed for less that five (5) business days, the Issue Price shall be used as the closing price of any business day falling within the period before Listing.

(9) Rights are personal to Grantee

An Option shall be personal to the Grantee and shall not be transferable or assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor or any third party over or in relation to any Option or attempt to do so.

(10) Exercise of Options

Subject to any condition or restriction in connection with the exercise of the Option which may be imposed by the Board when granting the Option and other provisions of the Schemes the Option may be exercised by the Grantee (or his legal personal representative) at any time during the Option Period, provided that paragraph (11), (12) or (13) below has been satisfied.

(11) Right on ceasing employment

In the event that the Grantee ceases to be an employee of our Group due to resignation, retirement, expiry or termination of the Grantee's employment contract or for any reason other than his or her death or the termination of his or her employment on one or more of the grounds specified in paragraph (18)(vii) below, the Grantee may exercise the Option up to his or her entitlement as calculated at the date of cessation (to the extent not already exercised) within the period of one (1) month following the date of such cessation. The date of cessation of employment shall be the last actual day on which the grantee was physically at work with our Company or the relevant subsidiary of our Company whether salary is paid in lieu of notice or not.

(12) Rights on ceasing appointment

In the event that the Grantee ceases to be a consultant or adviser of or to our Company or any of its subsidiaries (whether on an employment or contractual or honorary basis and whether paid or unpaid) on grounds other than one or more of those specified in paragraph (18)(viii) below, the Grantee may exercise the Option up to his or her entitlement as calculated at the date of cessation (to the extent not already exercised) within the period of one (1) month following the date of such cessation. The date of cessation shall be the day on which his or her appointment was terminated.

(13) Rights on death

In the event that the Grantee ceases to be an Eligible Person by reason of death and none of the events which would be grounds for termination of his or her employment or appointment under paragraph (18)(vii) or (18)(viii) arises (as the case may be), the legal personal representative(s) of the Grantee shall be entitled within a period of 12 months from the date of death (or such longer period as the Board may determine) to exercise the Options in full (to the extent not already exercised) up to the entitlement of such Grantee as at the date of death.

(14) Rights on a compromise or amalgamation

In the event of a compromise or amalgamation, other than a scheme of arrangement contemplated under the Scheme, between our Company and its members or creditors being proposed in connection with any scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the Grantee (or his or her personal representatives) may, be notice in writing to our Company, accompanied by the remittance for the Subscription Price in respect of the relevant Option (such notice must be received by our Company not later than two Business Days prior to the proposed meeting), exercise the Option (to the extent not already exercised) either to its full extent or to the extant specified in the relevant notice. Thereafter, our Company shall, as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee, which falls to be issued on such exercise, credited as fully paid, and register the Grantee as holder thereof.

(15) Rights on winding-up

In the event a notice is given by our Company to our Shareholders to convene a Shareholders' meeting to consider and, if thought fit, approve a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all Grantees and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by us) exercise the Option either to its full extent or to the extent notified by us, and we shall as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed Shareholders' meeting, allot, issue and register in the name of the Grantee such number of Shares to the Grantee which fall to be issued on such exercise.

(16) Ranking of shares

The Shares to be allotted and issued upon the exercise of an Option will be subject to the Articles of Association in force at that time including with respect to voting and transfer rights and rights arising on a liquidation of our Company and will rank *pari passu* in all respects with the fully paid Shares in issue as at the date of allotment and thereafter the holders thereof will be entitled to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividends or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment.

(17) Performance target

The Grantee will not be required to achieve, meet or exceed any performance targets before that particular Grantee can exercise the Option(s) granted, except those otherwise imposed by the Board pursuant to paragraph (5) above and/or stated in the offer of grant of the Option.

(18) Lapse of options

An Option shall lapse automatically (to the extent not already exercised) on the earliest of: (i) the expiry of the Option Period; (ii) the expiry of any of the periods referred to in paragraphs (11), (12), (13) and (15) above; (iii) subject to a court of competent jurisdiction not making an order prohibiting the offeror from acquiring the remaining Shares in the offer; (iv) subject to the scheme of arrangement becoming effective; (v) the date of commencement of the winding-up of our Company; (vi) the date when the proposed compromise or amalgamation becomes effective; (vii) the date on which the Grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his or her employment or other contract constituting him or her as an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become insolvent or has made any arrangement or composition with his or her creditors generally or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the Grantee's service contract with our Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the employment or other relevant contract of a Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive and binding on the Grantee; (viii) the date on which the Grantee ceases to be an Eligible Person by reason of the termination of his or her relationship (whether by appointment or otherwise) with our Company or its subsidiaries as a consultant or adviser on any one or more of the grounds that he or she has become unable to pay his or her debts or has become otherwise insolvent or has made any arrangement or composition with his or her creditors generally, or has been

convicted or any criminal offence involving his or her integrity or honesty or (if so determined by the Board) has committed any act which is prejudicial to or not in the interests of our Company or its subsidiaries. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship with the Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive and binding on the Grantee; or (ix) the date on which the Grantee has committed a breach or paragraph (9) above.

(19) Maximum number of Shares available for subscription

The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other schemes of our Company must not exceed in aggregate 30 per cent of the Shares of our Company in issue from time to time (the "Overall Scheme Limit"). No Option may be granted under any schemes of our Company (or its subsidiaries) if such grant will result in the Overall Scheme Limit being exceeded. The total number of Shares which may be issued upon exercise of all Option to be granted under the Scheme and any other schemes must not in aggregate exceed 10 per cent of the Shares of our Company (or the subsidiary) in issue as at the Listing Date, being 117,000,000 Shares (the "**Scheme Mandate Limit**") for this purpose. Option lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Subject to the Overall Scheme Limit, our Company may seek approval from its shareholders in general meeting for refreshing the Scheme Mandate Limit. However, the total number of Shares which may be issued upon exercise of all Options to be granted under all of the schemes of our Company under the limit as refreshed must not exceed 10 per cent of the Shares in issue as at the date of approval by the shareholders of the renewed limited (the "**Refreshed Scheme Mandate Limit**"); Option previously granted under any existing schemes (including those outstanding, cancelled or lapsed in accordance with the Scheme or exercised Options) shall not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit. Our Company must send a circular to its shareholders containing the information required under the relevant provisions of Chapter 17 of the Listing Rules.

Subject to the Overall Scheme Limit, our Company may seek separate approval from its shareholders in a general meeting for granting Options to subscribe for Shares beyond the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit (as the case may be) provided that the Option in excess of the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit are granted only to Eligible Persons specifically identified by our Company before such approval is sought and our Company must send a circular to its shareholders containing the information specified in the relevant provisions of the Listing Rules. Unless approved by shareholders in general meeting at which the relevant Eligible Person and his/her associates abstain from voting in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, the total number of Shares issued and to be issued upon exercise of the Options granted to such Eligible Person (including

exercised, cancelled and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue (the "**Individual Limit**") at such time. With respect to any further grant of Options to an Eligible Person exceeding in aggregate the Individual Limit, our Company must send a circular to its shareholders and the circular must disclose the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted to such Eligible Person), and the information required under the relevant provisions of Chapter 17 of the Listing Rules. The number and terms (including the Subscription Price) of Options to be granted to such Eligible Person must be fixed before the general meeting at which the same are approved, and the date of the Board meeting for proposing such further grant should be taken as the Date of Grant for the purpose of calculating the Subscription Price.

(20) Cancellation of Options

Any cancellation of Options granted but not exercised must be approved by the Board. New Option may be issued to a Grantee in place of his or her cancelled Option only if there are available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit or such enlarged limit that may be approved by the shareholders of our Company in accordance with paragraph (19) above.

(21) Reorganization of capital structure

In the event of any alteration in the capital structure of our Company whilst any Option remains exercisable, whether by way of capitalization issue, rights issue, subdivision, consolidation, or reduction of the share capital of our Company or otherwise howsoever in accordance with legal requirements and requirements of the Stock Exchange excluding any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in respect of a transaction to which our Company is a party, such corresponding alterations (if any) shall be made to:

(i) the number or nominal amount of Shares subject to the Option so far as unexercised; and/or

(ii) the Subscription Price,

as an independent financial adviser or the auditors for the time being of our Company shall at the request of the Board certify in writing to the Directors, either generally or as regards any particular Grantee, to be in their opinion fair and reasonable and that any such alterations shall satisfy the requirements set out in the note to Rule 17.03(13) of the Listing Rules and shall give a Grantee the same proportion of the issued share capital of our Company as that to which the Grantee was previously entitled (as interpreted in accordance with the Supplementary Guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to Share Option Schemes and/or any future guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time), provided that no such alterations shall be made the effect of which would be to

enable a Share to be issued at less than its nominal value. The capacity of the independent financial adviser or the auditors for the time being of our Company in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the Grantees. The costs of the independent financial adviser or the auditors for the time being of our Company shall be borne by our Company.

(22) Alteration of Scheme

Except with the prior sanction of our Company in general meeting (with the Eligible Persons and their associates abstaining from voting), the Board may not amend:

(i) any of the provisions of the Scheme relating to matters contained in Rule 17.03 of the Listing Rules to the advantage of the Eligible Persons or Grantees;

(ii) any terms and conditions of the Scheme which are of a material nature or any terms of the Options granted except where such alterations take effect automatically under the existing terms of the Scheme;

(iii) any provisions on the authority of the Board in relation to any alteration to the terms of the Scheme.

(23) Termination of Scheme

Our Company, by resolution in general meeting, or the Board may at any time terminate the operation of the Scheme and in such event no further Options will be offered but in all other respects the provisions of the Scheme shall remain in full force and effect. Options complying with the provisions of Chapter 17 of the Listing Rules which are granted during the Scheme Period and which remain unexpired immediately prior to the termination of the operation of the Scheme shall, subject to the terms of the Scheme, continue to be valid and exercisable thereafter.

E. OTHER INFORMATION

1. Estate Duty

The Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, the PRC and other jurisdictions in which the companies comprising our Group are incorporated.

2. Deed of Indemnity

(a) Indemnity on estate duty and taxation

On November 17, 2010, the Controlling Shareholders (the "**Indemnifiers**") entered into an deed of indemnity (which was subsequently superseded by an amended and restated deed of indemnity dated November 27, 2010 (the "Deed of Indemnity")) with and in favor of our Company (for itself and as trustee for each of its subsidiaries). Each of the Indemnifiers has given joint and several indemnities in respect of, among other things, any taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Global Offering becomes unconditional (the "**Effective Date**").

The Deed of Indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed in respect of any taxation:

(i) to the extent that provision, reserve or allowance has been made for such taxation in the audited combined accounts of our Group for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010, as set out in Appendix I to this prospectus;

(ii) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the Effective Date;

(iii) falling on the any of the members of the Group in respect of any accounting period commencing on or after May 31, 2010 unless liability for such taxation would not have arisen but for any act or omission of, or transaction voluntarily effected by, any of the members of the Group or any Indemnifier, other than in the ordinary course of business and before the Effective Date; or

(iv) to the extent of any provisions or reserve made for taxation in the audited accounts of our Group up to May 31, 2010, which is finally established to be an over-provision or an excessive reserve.

(b) Other Indemnities

(i) Each of the Indemnifiers hereby covenants and undertakes to jointly and severally indemnify and keep indemnified each member of the Group against any potential costs, damages, liability, fines, expenses or losses of each member of the Group (including without limitation, disruption of business, relocation of premises) in respect of the non-registration of charges, pledges or the leases of certain properties of the Group as disclosed in the section headed "Risk Factors" in this prospectus.

(ii) Each of the Indemnifiers hereby covenants and undertakes to jointly and severally indemnify and keep indemnified each member of the Group against any loss or liability suffered or to be suffered by any of the members of the Group in relation to any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or to be suffered or incurred or to be incurred by any of the members of the Group as a result of or in connection with any litigations, arbitration, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any of the members of the Group in relation to any non-compliance of social insurance and housing fund laws and regulations as disclosed in the section headed "Risk Factors" in this prospectus.

(iii) Each of the Indemnifiers hereby covenants and undertakes to jointly and severally indemnify and keep indemnified each member of the Group against any loss or liability suffered or to be suffered by any of the members of the Group in relation to any liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or to be suffered or incurred or to be incurred by any of the members of the Group as a result of or in connection with any action or claim (whether initiated in Hong Kong, PRC or elsewhere) in relation to the Proposed Subscription, including but not limited to the Unserved Writ as disclosed in the section headed "Risk Factors" in this prospectus.

(iv) Each of the Indemnifiers hereby covenants and undertakes to jointly and severally indemnify and keep indemnified each member of the Group against any loss or liability suffered or to be suffered by any of the members of the Group in relation to any claims, events, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or to be suffered or incurred or to be incurred by any of the members of the Group as a result of or in connection with any litigations, arbitration, claims (including counter-claims), complaints, disputes, demands and/or legal proceedings instituted by or against any of the members of the Group in relation to event occurred on or before the Effective Date (including the event which has not yet discovered) and not disclosed in this prospectus.

3. Litigation

Saved as disclosed in the sections headed "Risk Factors" and "History, Reorganization and Corporate Structure" in this prospectus, as at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened by or against any member of our Group.

4. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for a Listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

5. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK$107,411 and are payable by our Group.

6. Promoter

Our Company has no promoter for the purposes of the Listing Rules.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
CCB International Capital Limited	Licensed corporation under the SFO for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Piper Jaffray Asia Limited	Licensed corporation under the SFO for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants
Jun He Law Offices	PRC legal advisers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Stevensons Lawyers	Samoa legal advisers
Yip, Arthur C.H.	Hong Kong Counsel
Jones Lang LaSalle Sallmanns Limited	Professional property valuers

8. Consents of experts

Each of CCB International Capital Limited, Piper Jaffray Asia Limited, Ernst & Young, Jun He Law Offices, Conyers Dill & Pearman, Stevensons Lawyers, Yip, Arthur C.H. and Jones Lang LaSalle Sallmanns Limited has given and has not withdrawn its/his written consent to the issue of this prospectus with the inclusion of its/his report and/or letter and/or valuation certificate and/or the references to its/his name included herein in the form and context in which it is respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

10. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Advisory fees or commissions received

The Underwriters will receive an underwriting commission and additional fees and the Joint Sponsors will in addition receive a sponsor fee as referred to in the paragraph headed "Total Commission and expenses" under the section headed "Underwriting" in this prospectus.

12. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within the two years immediately preceding the date of this prospectus, no share or loan capital of any member of our Group has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) within the two years immediately preceding the date of this prospectus, no share or loan capital of any member of our Group is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founder, management or deferred shares of any member of our Group have been issued or agreed to be issued;

(iv) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of any member of our Group;

(v) within the two years immediately preceding the date of this prospectus, no commission has been paid or is payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in any member of our Group; and

(vi) our Group has no outstanding convertible debt securities or debentures.

(b) No member of our Group is presently listed on any stock exchange or traded on any trading system.

(c) All necessary arrangements have been made to enable the Shares to be admitted into the CCASS for clearing and settlement.

(d) Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since May 31, 2010 (being the date to which the latest audited combined financial statements of our Group were made up).

(e) The register of members of our Company will be maintained in the Cayman Islands by Codan Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by our Company's branch share registers in Hong Kong and may not be lodged in the Cayman Islands.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the **WHITE**, **YELLOW** and **GREEN** application forms, (ii) the written consents referred to under the paragraph headed "Consent of experts" under the section headed "Other information" in Appendix VI to this prospectus and (iii) copies of the material contracts referred to under the paragraph headed "Summary of material contracts" under the section headed "Further information about our business" in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Li & Partners at 22nd Floor, World Wide House, 19 Des Voeux Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the Accountants' Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;

(c) the audited consolidated financial statements of our Group for each of the three years ended December 31, 2007, 2008 and 2009 and the five months ended May 31, 2010;

(d) the letter from Ernst & Young relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

(e) the letters from Ernst & Young and the Joint Sponsors relating to the profit forecast of our Group, the texts of which are set out in Appendix III to this prospectus;

(f) the letter, summary of valuation and valuation certificates relating to the property interests of our Group prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this prospectus;

(g) the letter of advice prepared by Conyers Dill & Pearman referred to in the section headed "Summary of the constitution of our Company and Cayman Islands Company Law" in Appendix V to this prospectus;

(h) the Samoa legal opinion dated March 24, 2010 issued by Stevensons Lawyers as referred to in this prospectus;

(i) the opinion dated November 30, 2010 issued by Yip, Arthur C.H. as referred to in this prospectus;

(j) the PRC legal opinion prepared by Jun He Law Offices, our PRC legal adviser in respect of, *inter alia*, our Group's overall business operation in the PRC and properties located in the PRC;

(k) the Cayman Companies Law;

(l) the material contracts referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about our business" in Appendix VI to this prospectus;

(m) the service contracts referred to in the paragraph headed "Particulars of Directors' service contracts" under the section headed "Further information about our Directors and Substantial Shareholders" in Appendix VI to this prospectus;

(n) the written consents referred to in the paragraph headed "Consents of experts" under the section headed "Other information" in Appendix VI to this prospectus; and

(o) the rules of the Share Option Scheme.

中國新材控股有限公司

China New Materials Holdings Limited