You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Our business, financial condition and results of operations could be materially adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please see "Regulations" to this prospectus.

RISKS RELATING TO OUR BUSINESS

We use, generate and dispose of hazardous chemicals which may subject us to liabilities.

Our business and operations involve the use, generation and disposal of hazardous substances, including substances that are highly regulated and may cause harm to the environment or human health, including chlorine, sulfur dioxide and chromium. As a result, we are subject to PRC environmental protection laws and regulations governing the emission, discharge, release and disposal of these substances and other pollutants. These laws and regulations require enterprises that produce environmental wastes to obtain government authorizations for operations and to adopt effective measures to control and properly manage and dispose of materials containing hazardous chemicals, including our raw materials, products, waste gases, waste water, and solid wastes. PRC environmental protection laws and regulations also require producers discharging hazardous substances and other pollutants to pay fines for discharges above permitted levels. Failure to comply with applicable PRC environmental laws or regulations may result in local environmental protection authorities imposing fines or suspending operations, may lead to the loss of environmental and production licenses and, in more extreme cases, criminal proceedings against a manufacturer and its management. The PRC government and PRC regional regulatory authorities also have the discretion to suspend or close any facility failing to comply with such environmental protection laws and regulations. We cannot assure you that we will be in compliance with all such laws and regulations at all times. In the event that the PRC government imposes more stringent environmental protection laws and regulations, our production and distribution costs may increase, or we may be forced to curtail or suspend production or to incur material capital expenditures or other costs to remain in compliance and we may be unable to pass on these additional costs to our customers.

In addition, our operations and prior operations by others at properties where our facilities are currently located could result in releases of hazardous chemicals or other forms of pollution (including through air emissions, water discharges and waste disposal activities) that may cause harm to the environment or to human health. Some of our properties have a long history of industrial or chemical use and we cannot assure you that these properties have not been impacted by such activities. In the event that hazardous chemicals and other forms of pollution are present at our properties or result from such activities, we may be subject to claims for personal injury or property damages. We may also be required by governmental authorities to investigate or remedy such conditions or pay compensation for any harm.

One of our operating subsidiaries was involved in a civil action concerning environmental pollution in the past.

In 2002, Zhang Changjian and 1,720 other residents (the "Plaintiffs") in Pingnan County, which is adjacent to the facilities of our subsidiary Fujian Rongping, filed a lawsuit in the Intermediate People's

Court of Ningde City ("Ningde Court") against Fujian Pingnan, the predecessor of Fujian Rongping, seeking compensation for environmental pollution and psychological damages. At the time this case was initiated, Fujian Pingnan was a state-owned enterprise and was under different management. Fujian Rongping succeeded Fujian Pingnan's defendant position prior to the acquisition by Mr. Liem of a controlling interest in Fujian Rongping. The Plaintiffs alleged that Fujian Rongping polluted the surrounding area. We believe that Fujian Rongping was not the source of the alleged environmental pollution damages. Fujian Rongping also argued that the alleged environmental pollution damages were, in fact, caused by a nearby factory that relied primarily on coal to manufacture bricks. On April 15, 2005, Ningde Court decided in favor of the Plaintiffs. Both Fujian Rongping and the Plaintiffs appealed the trial ruling of Ningde Court and presented an appeal to the High People's Court of Fujian Province ("Fujian High Court"). On November 16, 2005, the Fujian High Court issued a final judgment, in which the court decided that (i) Fujian Rongping must immediately stop the violations against the Plaintiffs, (ii) Fujian Rongping must within 10 days of the effective date of the decision compensate the Plaintiffs in the amount of RMB684,178.20 for damage to trees, orchards, bamboo, other crops and other losses, and (iii) Fujian Rongping must within one year of the effective date of the decision clean up and dispose all industrial waste on the factory grounds and in a nearby waste disposal field. For more details of this civil action, please see the section headed "Business — Environmental Protection — Environmental Litigation."

Our PRC legal adviser, Zhong Lun Law Firm, has confirmed that the judgment of the Fujian High Court is considered final under PRC law. However, we cannot assure you that we will not be subject to proceedings or disputes, similar or otherwise, in the future. An unfavorable outcome in any such proceedings could result in costs, penalties and other liabilities, heighten political pressure and scrutiny of our operations by local authorities, limit our ability to operate and to expand our business and, consequently, have a material adverse effect on our financial condition and results of operations. Regardless of the outcome of the disputes, defending ourselves in these proceedings generally involves significant expense and diversion of management attention and resources, which are detrimental to the operation of our business.

In addition, the Fujian Rongping civil action caused widespread public attention and press coverage at the time the case was being heard by the courts, some of which contained, based on the knowledge and judgment of our Directors, false allegations and wrongful accusations against us. Such or similar negative publicity arising from any future proceedings or disputes that we may be subject to could damage our business image and reputation, and our customer relationships could potentially be jeopardized, which could have a material adverse effect on our financial condition and results of operations.

Fluctuations in the average selling prices of our products may adversely affect our results of operations.

The average selling prices of our bleaching and disinfectant chemicals, ADC foaming agent and other specialty chemicals are subject to fluctuation. For example, the average selling price of sodium chlorate increased by 3.8% from RMB4,160 per ton in 2008 to RMB4,319 per ton in 2009, followed by a decrease of 10.9% to RMB3,847 per ton in 2010 and a slight increase of 1.5% to RMB3,905 per ton for the six months ended June 30, 2011. The average selling price of hydrogen peroxide decreased by 15.2% from RMB1,528 per ton in 2008 to RMB1,296 per ton in 2009, followed by a decrease of 2.7% to RMB1,261 per ton in 2010 and an increase of 5.3% to RMB1,328 per ton for the six months ended June 30, 2011. The average selling price of ADC foaming agent decreased by 5.3% from RMB13,562 per ton to RMB12,841 per ton in 2009, followed by an increase of 16.2% to RMB14,925 per ton in 2010 and an increase of 15.2% to RMB17,198 per ton for the six months ended June 30, 2011. The fluctuations in the average selling prices of our products are primarily caused by general market conditions, such as market competition, changes in raw material costs, and other factors that are beyond our control, such as the global financial crisis, which affected the businesses of our downstream customers and, in turn, their demand for our products. If the average selling prices of our main products, namely, sodium chlorate, hydrogen peroxide and ADC foaming agent, had increased or decreased by 10% in 2010, with all other variables hold constant, our profit for 2010 would have increased or decreased by RMB72.9 million, or 42.7%. For further details on a sensitivity analysis of changes in average selling prices of our main products, see "Financial Information — Sensitivity Analysis on Average Selling Price of Products and Average Cost of Raw Materials."

We cannot assure you that we will not continue to experience volatile or declining average selling prices for our products in the future or that our average selling prices will remain consistently at the same level. A decline in the average selling prices for our products will adversely affect our revenue, profit margins, and other aspects of our results of operations could be adversely affected.

Any interruption, shortage of utilities or fluctuation in utility prices may adversely affect our business operations.

Our production process requires a stable and large supply of utilities, primarily electricity and water. Electricity plays a particularly important function in the production of our products. We also acquire water from nearby rivers in accordance with our water withdrawal permits. For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, cost of utilities accounted for 33.7%, 27.8%, 27.8% and 26.6% of our cost of sales, respectively. As such, our entire production process may be forced to stop if there is an insufficient supply of utilities or a suspension of such supplies. Also, we anticipate that our reliance on such supplies will further increase as we seek to expand our production capacity. Any shortage of supply may therefore adversely affect our production flow and prevent us from satisfying obligations under purchase contracts with our customers during the affected period. Further, we own and operate a hydroelectric plant at Fuzhou Yihua and we also use hydroelectricity from external sources. If our hydroelectric plant or external hydroelectric suppliers experience breakdowns or disruptions and suspends power generation, or if the external hydroelectric suppliers terminate their supply agreements with us, or if seasonal factors result in a shortage of rain water for hydroelectricity generation, we may have to rely on more expensive electricity from other sources such as the provincial power grid. Any shortages of electricity supply may disrupt our production and adversely affect our business, financial condition and results of operations.

Our business expansion requires significant and continuous capital investments. Failure to raise sufficient capital in a timely manner may adversely affect our future business growth.

We require a significant amount of capital to expand, maintain and operate our production facilities. In particular, we require a considerable amount of capital to expand, construct and purchase production facilities and equipment as well as to implement new technologies to cater to our production needs. For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, we incurred aggregate capital expenditures of approximately RMB21.3 million, RMB121.0 million, RMB145.8 million and RMB15.7 million, respectively. We expect to further increase our capital expenditures in the future as we seek to strengthen our leading market position in China by expanding our production capacity and further developing our technologies. Given that a substantial portion of our capital expenditures are incurred in advance of any actual sales, our success is heavily dependent on our ability to continue to secure and successfully manage sufficient amounts of working capital.

Our business expansion may not be completed as planned, may exceed our original budget and may not achieve the intended economic results or commercial viability.

Our future success to a large extent depends on our ability to expand our production capacity. We have expanded our production capacity by constructing new facilities in order to cater to the anticipated growing demand of our products in the PRC and around the world. We plan to further increase our production capacity in fiscal years 2012 and 2013 by upgrading and acquiring additional production facilities at our existing production plants and possible acquisitions of third party producers. We plan to expand our designed annual production capacity of our major products, including sodium chlorate, hydrogen peroxide, ADC foaming agent and caustic soda. We also plan to diversify our product mix. See "Business — Expansion Plans." We cannot guarantee that we will be able to complete our expansion plans within budget or on schedule or at all. Our expansion plans may be adversely affected by factors such as lack of utilities and personnel, unexpected technical problems, natural disasters an inability to obtain required governmental permits and approvals, problems with construction of our existing or future production facilities, logistical difficulties and any unforeseen legal or regulatory impediments introduced by the PRC government. If there is any delay in the progress of our expansion plans, we may not be able to deliver our products in the quantity and quality demanded by our customers and hence, our reputation and future business opportunities may be adversely affected. Further, these plans may not achieve the intended economic results or commercial viability, which in turn could weaken our competitive position in the market and adversely affect our business, financial condition and results of operations.

Our business may be adversely affected by increases in raw material prices that we are unable to pass on to our customers.

Our profit margins are largely a function of the relationship between the prices that we are able to charge for our products and the costs of the raw materials that we require to make these products. In 2010, the total raw materials used and changes in inventory constituted approximately 62% of our total cost of sales. The costs of the raw materials we use to produce our products are commodities subject to market forces. Our historical operations and margins have been and will continue to be affected by fluctuations in prices for raw materials. For example, the average cost of industrial salt decreased by 31.4% from RMB373 per ton in 2008 to RMB256 per ton in 2009, followed by an increase of 15.2% to RMB295 per ton in 2010 and a further increase of 32.5% to RMB391 per ton for the six months ended June 30, 2011. The average cost of foaming agent decreased by 14.1% from RMB13,685 per ton in 2008 to RMB11,762 per ton in 2009, followed by an increase of 5.5% to RMB12,404 per ton in 2010 and a further increase of 18.7% to RMB14,718 per ton for the six months ended June 30, 2011. For further details on the fluctuations of our other main raw materials, see "Business — Electricity, Raw Materials and Water — Raw Materials." We cannot assure you that we will always be able to secure an adequate supply of raw materials at commercially viable prices to meet our future production requirements. Moreover, fluctuations in the prices of our raw materials may increase our costs of sales and reduce our gross profit and gross margin. If the average costs of our main raw materials, namely, industrial salt, urea, coal, potassium chloride and foaming agent, had increased or decreased by 10% in 2010, with all other variables held constant, our profit for 2010 would have increased or decreased by RMB36.6 million, or 21.5%. For further details on a sensitivity analysis of changes in average cost of our main raw materials, see "Financial Information — Sensitivity Analysis on Average Selling Price of Products and Average Cost of Raw Materials." We cannot guarantee that we will not suffer adverse effects from any price increases of raw materials in the future. If we encounter a shortage of raw materials or if we are unable to pass on the price increases of raw materials to our customers in a timely manner, our business and results of operations could be adversely affected.

Our business operations are subject to significant operational and transportation risks relating to hazardous chemicals and other unforeseen risks.

We process, handle, store, distribute and transport chemicals often in a high temperature and high pressure environment. Improper handling of these materials or wastes, at our production facilities or during transport, can cause serious pollution, fires or explosions. Any accidents resulting from improper handling of these chemicals may cause serious health and safety issues for our employees, transport personnel or others, cause significant damage to our production facilities and result in production interruptions or result in harm to the environment or natural resources. Our operations are also subject to unforeseen risks. We cannot assure you that we are insured for any of these risks or that if insured, we will be successful in making claim under our insurance policies or that the claimed proceeds will be sufficient to compensate the actual damages suffered or at all. Any of these events could also lead to litigation, government fines or penalties, which in turn may materially and adversely affect our reputation, financial condition and results of operations.

We may be subject to liabilities in connection with accidents arising from our operations.

Our business involves the operation of machinery and handling of chemicals, which, if operated or handled improperly, may result in health and safety issues for our employees, physical injury or even death. If accidents resulting in employee injuries or deaths occur, we may be liable for medical and other payments to the employees and their families, in addition to possible fines or penalties. Furthermore, we may be forced to shut down certain equipment or suspend our operations due to government investigation or government requirement to implement additional safety measures. Such business interruptions will have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that all risks have been covered adequately by our existing insurance policies. If we incur substantial liabilities and they are not covered by our insurance policies, our business, financial condition and results of operations could be materially and adversely affected.

We may be affected by import policies of the countries to which we export our products and export policies of China.

A portion of our products is directly exported to the international markets such as Japan, India, Thailand, Korea, Indonesia and other countries. Our sales directly to the international markets accounted for approximately 14.0%, 11.5%, 16.4% and 16.0%, of our sales for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, respectively. In addition, we also sell our products to trading companies which may export our products. We are accordingly subject to applicable laws and regulations of the countries that import our products. Should our export markets introduce new laws and regulations, measures and standards that make it more difficult or costly for our products to be exported to them, or take steps to prevent, limit or prohibit the importation of our products, our business, results of operations and financial condition may be materially and adversely affected. Where certain countries impose customs duties and import tariffs, we may pass on such additional costs to the end buyers. In the case of our customers which are trading companies that export our products, if they are unable to pass on such additional costs to the end buyers, their demand, and the prices they are willing to pay, for our products may decline, which in turn may have a material adverse effect on our business, results of operations and financial condition. We are currently not subject to any PRC export duties in the export of our products from the PRC, but we cannot assure you that the PRC government will not levy such taxes in the future. In the event that the regulatory authorities in the PRC adopt measures making it more difficult or costly for us to export our products, our business, financial condition and results of operations may be materially and adversely affected.

Our operations are subject to production malfunctions and other risks and routine shutdowns for maintenance.

Our operations may be subject to production difficulties such as capacity constraints, mechanical and systems failures, construction and upgrade delays and delays in the delivery of machinery, any of which could cause suspension of production and reduced output. Scheduled and unscheduled maintenance programs may also affect our production output. Any significant manufacturing disruption could adversely affect our ability to make and sell products, which could have a material adverse effect on our business, financial conditions and results of operations.

We rely on distributors to distribute and market our products.

We rely on our distributors in selling our products. For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, revenue from our distributors amounted to RMB448.4 million, RMB606.0 million, RMB783.9 million and RMB454.7 million, respectively, representing approximately 64.0%, 60.2%, 64.7% and 63.6% of our total revenue, respectively. As such, the performance of our distributors and their ability to on-sell our products, to expand their businesses and their sales network are crucial to the future growth of our business and directly affect our sales volume and profitability. In addition, if any of our distributors fails to distribute our products in a timely manner or according to the terms of our distribution agreement, or at all, or if our distribution agreements are suspended, terminated or otherwise expired without renewal, our profitability could be materially and adversely affected. We cannot assure you that we will be able to maintain our agreements with our distributors on favorable terms or at all. Our distributors may not be able to market and sell our products successfully or maintain their competitiveness, or we may not be able to monitor our distributors directly to ensure efficient sales of our products to downstream customers. Furthermore, if the sales volumes of our products to downstream customers are not maintained at a satisfactory level, our distributors may not place orders on new products from us or may decrease the quantity of their usual orders or may ask for discount on the purchase price. The loss of our distributors, or reduced orders from them, could materially and adversely affect our business, financial condition and results of operations.

We may not have been in full compliance with the Catalog for the Guidance of Foreign Investment Industries in the past.

In China, the Catalog for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) ("Catalog"), promulgated by the NDRC and MOFCOM, classifies certain businesses of foreign-invested enterprises into certain categories — "encouraged," "restricted" and "prohibited," while an industry that is not specifically placed into one of the three categories falls into the "permitted" category. The categorization affects the regulatory approval process for a foreign-invested enterprise operating in a categorized business and the availability of tax and other incentives. Under the 2004 version of the Catalog ("Catalog 2004"), production of caustic soda using the ion membrane method (instead of other methods, such as diaphragm electrolysis) was under the "restricted" category, while under the 2007 version of the Catalog ("Catalog 2007"), which became effective on December 1, 2007, production of all types of caustic soda, regardless of the production method used, fell under the "restricted" category.

One of our operating subsidiaries, Fujian Rongchang, had historically been engaged in the production of caustic soda using the diaphragm electrolysis method, which was not restricted under Catalog 2004. On August 20, 2007, Fujian Rongchang filed with the relevant authorities for the expansion project in relation to the production of caustic soda using the ion membrane method ("IM project") under the filing procedure applicable to domestic companies, instead of the approval procedure applicable to foreign investment companies.

In 2005, Mr. Liem entered into entrustment agreements with the relevant nominees to hold his equity interests in Fujian Rongchang. See "History and Reorganization — Entrustment Arrangements." On January 1, 2008, China Yihua entered into a share transfer agreement to acquire all the equity interests in Fujian Rongchang from the nominees. The transfer was approved by the Fujian Provincial Department of Foreign Trade and Economic Cooperation on May 23, 2008. The business scope of Fujian Rongchang after the acquisition, including the production of caustic soda, was approved simultaneously. On June 30, 2008, Fujian Rongchang, as a foreign-invested enterprise, obtained its business license, which indicated that the approved business scope included the production of caustic soda. Therefore, Fujian Rongchang has been duly approved to engage in the production of caustic soda with foreign investments since May 23, 2008.

However, we have been advised by our PRC legal adviser, Zhong Lun Law Firm, that there is an uncertainty as to whether the entrustment arrangements complied with Catalog 2004 and Catalog 2007 during the period from August 20, 2007 to May 23, 2008 for the IM Project, where the foreign investments were not approved but Fujian Rongchang had begun construction of the IM Project. We cannot assure you that the relevant PRC authorities will not impose any legal or economic penalties or take any actions retrospectively in the event they deem the historical filing procedures for the IM Project under such entrustment arrangement to be not in compliance with Catalog 2004 and Catalog 2007. Although, as advised by our PRC legal adviser, such possibility may be remote, it could have a material and adverse effect on our business, results of operations and financial condition.

We may not be successful in identifying, acquiring or merging with suitable business targets, which could adversely affect our growth and results of operations.

Our long-term expansion plans may include acquisitions of or other arrangements with other businesses. Financing such acquisitions or arrangements may require us to incur debt which could have an adverse affect on our business and results of operations. In addition, such acquisitions or arrangements may be subject to the completion of due diligence, numerous regulatory restrictions and approvals, negotiations of definitive agreements and our ability to compete with other entities to attract the target parties. As such, we cannot assure you that in the future we will be able to identify and enter into arrangements with suitable business partners or acquisition targets on commercially acceptable terms, if at all, or will have sufficient capital to fund such arrangements. Failure to identify and enter into viable arrangements with suitable targets in the future could adversely affect our growth.

Further, even if we were successful in entering into arrangements with such targets, we cannot assure you that the relationships with such partners or suppliers will result in a positive impact on our revenue, nor can we assure you that such arrangements would not be terminated before we can derive all anticipated benefits, or that we would be able to integrate the target's business smoothly with ours to derive such benefits. Should that be the case, we may not be able to generate a return on our investment or recover our investment, and we may also be forced to incur extra costs in terms of potential compensation or damages for early termination under the relevant contracts and, thus, our business and results of operations may be adversely affected.

We may be adversely affected by the loss of key customers, including key international customers.

Sales to our five largest customers together accounted for approximately 19.6%, 17.3%, 24.2% and 23.0% of our revenue for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, respectively. It is essential for us to maintain close and mutually beneficial relationships with key domestic and international clients. To date, we deal with most of our customers in the form of annual contracts and monthly contracts. As such, we cannot assure you that our major customers will continue their purchases from us at current levels, or at all.

Moreover, our revenue is also subject to our customers' business, product quality, sales strategy, industry conditions and the overall economic market environment. We cannot rule out the risk that our customers may terminate our contracts prior to the agreed term, become insolvent or otherwise default on payments under such contracts, or fail to take delivery of our products in accordance with the purchase contracts. Any significant reduction of sales to or loss of any of our customers could materially and adversely affect our business and results of operations.

In addition, we consider that our relationship with well-known and high-end customers bears a strong and positive marketing effect on our products, in particular, our export to high-end Japanese customers. Any loss of such customers may have a negative marketing effect and could materially and adversely affect our reputation, business, financial condition and results of operations.

We may not be successful in the research and development of new products or in improving the quality of our existing products.

We rely on our research and development team to develop new products and new production technologies to improve our existing products. However, research and development of new products or to improve existing products may be time consuming and costly. We cannot assure you that any of our research projects would be completed within the anticipated time frame, or lead to any breakthroughs, or that the results of such research and development projects would lead to viable commercial production. If we are not successful in researching and developing new products and techniques or we are not able to translate our research and development efforts into commercial production, we may not be able to recover research and development costs incurred. We may have to continue our operations with possibly outdated products and production techniques that could restrict our ability to compete in the market and, in turn, our business and results of operations may be materially and adversely affected.

The failure of our patents, trademarks and confidentiality agreements to protect our intellectual property could adversely affect our business.

Proprietary protection of our processes, apparatuses and other technology is important to our business. Our actions to protect our proprietary rights may be insufficient to prevent others from developing similar products to ours. Furthermore, any future patent application filed by us may not result in an issued patent or, if patents are issued to us, such patents may not provide meaningful protection against competitors or against competitive technologies. You should be aware that the expiration of a patent or the failure of our patents to protect our formulations, processes, apparatuses, technology, trade secrets or proprietary know-how could result in intense competition with consequent erosion of profit margins. In addition, our competitors and any other third parties may obtain patents that restrict or preclude our ability to lawfully manufacture and market our products in a competitive manner, which could materially and adversely affect our business and results of operations.

We also rely on unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. While it is our policy to enter into confidentiality agreements with our employees and third parties to protect our intellectual property, we cannot assure you that:

- our confidentiality agreements will not be breached;
- confidentiality agreements will provide meaningful protection for our trade secrets or proprietary know-how; or
- adequate remedies will be available in the event of an unauthorized use or disclosure of these secrets and know-how.

In addition, we cannot assure you that others will not obtain knowledge of these trade secrets through independent development or other legal means.

We rely on certain key personnel and the recruiting and retaining of other qualified personnel to maintain our continued success.

The success of our business depends on, to a considerable extent, the services, expertise and continuity of our senior management personnel and other qualified personnel, most of whom have an in-depth understanding of our industry and operations and would be difficult to replace. Members of our senior management are key to our success because of their expertise and experience in our industry, market development, contribution to technological development and expertise in managing our operations. In addition, the relationship and reputation that our management has established and maintained with our customers contribute to our ability to maintain good relationships with customers. As a result, a loss of any of our key personnel could adversely affect our business and results of operations.

Our insurance coverage may not be adequate to cover all the risks we may face and if we were no longer covered by our existing insurance, it may be difficult to obtain replacement insurance on acceptable terms or at all.

Our property, plant and equipment and other assets are insured for property insurance. We believe these insurance policies are generally in accordance with customary industry practices, including deductibles and limits of coverage, but we cannot be fully insured against all potential hazards incident to our business, including losses resulting from war risks or terrorist acts, or all potential losses, including damage to our reputation. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our results of operations. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially and, in some instances, certain insurances may become unavailable at a reasonable cost or available only for certain risks. If we were for any reason no longer covered by our existing insurance, we cannot assure you that we would be able to obtain replacement insurance on acceptable terms or at all.

Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned with the interests of our other shareholders.

Immediately following the completion of the Global Offering and the Capitalization Issue, our Controlling Shareholders will beneficially own in aggregate approximately 52.49% of our Shares (assuming the Over-allotment Option is not exercised) or approximately 50.59% of our Shares (assuming the Over-allotment Option is exercised in full). The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, our other Shareholders could be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue.

Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, consolidations and the sale of all, or substantially all, of our assets, election of Directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of our other Shareholders. As such, our Controlling Shareholders' interests may not necessarily be in line with the best interests of our Company or the interests of our other Shareholders, which may have an adverse effect on our business operations and the price at which our Shares are traded on the Stock Exchange.

We may be liable for damages based on product liability claims.

Our products involve an inherent risk of injury that may result from tampering by unauthorized third parties, improper use, or product contamination or degeneration, including the presence of foreign contaminants, chemicals, substances or other agents or residues during the various stages of procurement, production, transportation and storage. We cannot guarantee that our products will not cause any health-related illness or injury in the future or that we will not be subject to claims or lawsuits relating to such matters. Further, we do not maintain any product liability or third party liability insurance. In the event that a product liability or third party liability claim is brought against us, we cannot guarantee that we will be successful in defending such claims and, as a result, may be required to pay substantial damages.

Under current PRC laws, there are no recall rules applicable to the type of industrial products that we manufacture. However, we cannot assure you that relevant government authorities will not promulgate new laws or regulations containing recall mechanisms for such industrial products. Under such circumstances, we may be required by the PRC government authorities to recall our products if they fail to meet the relevant quality or safety standards. We cannot guarantee that product liability claims will not be asserted against us as a result. A product liability judgment against us or a product recall could have a material adverse effect on our reputation, business and results of operations.

Our business may be adversely affected by an inability to retain or replace our key suppliers and disruption in the supply chain.

For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, our five largest raw material suppliers, who were independent third parties, together accounted for approximately 43.6%, 54.7%, 62.9% and 62.4% of our total purchases of raw materials, respectively. Over the same periods, our largest raw material supplier accounted for approximately 13.0%, 19.1%, 31.7% and 17.6% of our total purchases of raw materials, respectively. However, we cannot guarantee that we will be able to renew the agreements with these companies as they expire, or be able to find alternative suppliers in time to replace these companies if we are not able to renew such agreements.

We are subject to risks related to change in government environmental policies.

If current trends of environmental consciousness are not sustained or if governmental support for the adoption of environmentally friendly techniques, such as ECF and TCF, changes or ceases, we may lose our competitive advantage against foreign competitors or other competitors that produce lower quality, substitute products.

We have not made full contributions to a housing reserve fund and may be subject to fines or penalties.

According to the Regulations on Management of Housing Fund (《住房公積金管理條例》), an enterprise is required to contribute to a housing reserve fund for all of its employees. Our operating subsidiary, Fujian Rongping, only began to contribute to a housing reserve fund for its employees in January 2011 and had not made any contributions in the past. We estimate that the aggregate unpaid amount by Fujian Rongping to the housing fund authority to be approximately RMB1.78 million. See "Business — Employees — Welfare contributions." In view of Fujian Rongping's outstanding housing fund contributions, we have made a full provision of the amount of such overdue contributions in our audited financial statements. Under relevant PRC laws and regulations, an enterprise that failed to make housing fund contributions may be ordered to rectify such violation within a prescribed time limit. If the enterprise fails to rectify within this prescribed time limit, fines of between RMB10,000 and RMB50,000 may be imposed on the enterprise, and an application may be made to a people's court for compulsory enforcement. In addition, according to Fujian provincial rules, fines and compulsory enforcement requirements shall only be imposed if the relevant company fails to make up for such payment even after receipt of a written reminder letter. We have not received any written reminder letter from any competent governmental authorities and Fujian Rongping has commenced to pay the housing reserve fund for its employees since January 2011. Further, we cannot assure you that our employees will not bring any claims regarding payment of the housing reserve fund against us in the future. If such claims are successful, we may be required to pay the housing fund and additional amounts as damages. If we are ordered by the relevant housing fund authorities to pay the amounts of housing reserve fund contributions deemed outstanding, or if a penalty is imposed on us, our reputation, business, financial condition and results of operations may be adversely affected.

We face increasing competition from both domestic and foreign companies, which may affect our market share and profit margins.

The chemical industry in the PRC is highly competitive. Our competitors may have greater access to financial resources, more experience in resource allocation, better ability in product innovation and longer operating histories. Some of our international competitors may also have better management and may utilize more advanced technologies than we do. Our competitors in any particular market may also benefit from raw material supplies or production facilities that are closer to such markets, which provide them with competitive advantages in terms of cost and proximity to customers. In addition, the PRC government may in the future allow additional chemical producers to enter the market that would in turn increase the level of competition faced by us.

Our current or potential major competitors may provide products comparable or superior to those that we provide. Our competitors may also adapt more quickly to evolving industry trends or changing market requirements than we do. There may also be significant consolidation in the chemical industry among our competitors. Alliances may develop among competitors and these alliances may rapidly acquire significant market share. Some of our customers may also commence production of products similar to those we currently sell to them.

Our competitors are domestic and international sodium chlorate and hydrogen peroxide manufacturers of a similar size and scale to us. Increased competition may result in potential decline in our revenue and increase in costs. We cannot guarantee that we will be able to compete effectively against our current and future competitors.

We require various permits and licenses for the operation of our business and for the production and/or trading of chemicals in China. The loss of or failure to renew any or all of these licenses and permits could adversely affect our business and operations.

In accordance with PRC laws and regulations, we are required to maintain various licenses and permits to operate and to manufacture our products. Such regulations include, without limitation, the Regulations on Safety Production Permit (《安全生產許可證條例》), the Regulations on the Safety Administration of Hazardous Chemicals (《危險化學品安全管理條例》) that apply to the production, sales, storage, transportation and usage of hazardous chemicals. See "Regulations" to this prospectus for details of the various licenses and permits that the Group must obtain for its operations.

We are required to comply with such laws and standards in relation to our production processes, and the relevant regulatory authorities will also carry out regular inspections to ascertain our compliance with applicable laws and regulations. We have received confirmation from our PRC legal adviser that we have obtained and maintained all the necessary material permits and licenses required in connection with the Group's operations during the Track Record Period. We are also required to renew our licenses and permits periodically. Failure to pass these inspections, loss of or failure to renew our licenses and permits could result in our having to temporarily or permanently suspend some or all of our production activities, which could disrupt our operations and could result in our being unable to meet our contractual obligations. This may adversely affect our business, financial condition and results of operations.

Publicity regarding us or our products may not be accurate or complete and any negative publicity about us, whether or not accurate, may adversely affect our business and reputation.

We are subject to general media coverage regarding our Company and our products over which we have no control. We cannot assure you that negative publicity regarding our Company or our products will not appear in the future that may damage our reputation and lead to a lack of consumer confidence in our products, decreased orders for our products, non-renewal of supply contracts with existing customers or other adverse effects, any of which may materially and adversely affect our business, financial condition, results of operations and stock price.

The national and regional economies in which we operate or sell our products and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics.

Our business is subject to general economic and social conditions in regions where we operate or sell our products. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in regions where we operate or sell our products. Some regions in China, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. We cannot assure you that such disasters will not occur at our production facilities' locations. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 avian flu or the human swine flu, may result in material disruptions to our operations, sales and marketing efforts, or negatively affect the operations of our customers which may in turn, affect their demand for our products. If any of the above events occur, our business, financial condition and results of operations may be materially and adversely affected.

In March 2011, an earthquake measuring 9.0 on the moment magnitude scale occurred in the western Pacific Ocean, 130 kilometers east of Sendai, Honshu, Japan. The earthquake and the resulting tsunami caused widespread destruction and the loss of lives in the northeastern part of Japan, as well as damages to the Fukushima I Nuclear Power Plant in Fukushima, resulting in radiation leakages to the surrounding areas. These events may result in material disruptions to the operations of our Japanese customers which may in turn, affect their demand for our products. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We experienced net current liabilities during the Track Record Period and may need additional external financing to fund our working capital and capital expenditure requirements and we may not be able to obtain such financing on acceptable terms or at all.

As of December 31, 2008, 2009 and 2010 and June 30, 2011, we had net current liabilities of approximately RMB255.7 million, RMB78.2 million and net current assets of approximately RMB42.0 million and RMB289.5 million, respectively. Our net current liability positions primarily reflected our historical reliance on short-term loan facilities to finance the construction and acquisition of our hydroelectric power plants. We expect to incur significant capital expenditures for maintaining our existing facilities and investing in production capacity expansions and possible acquisitions. We cannot assure you that we will be able to maintain our net current asset position as of June 30, 2011 in the near future and we may need additional capital to fund our working capital requirements beyond the next 12 months.

We intend to continue to fund our operations, including our working capital and capital expenditure needs, by the cash flow generated from our operations, extension of existing bank financing upon maturity through roll-over or renewal, additional bank financing and the issuance of additional equity or debt securities. Our ability to meet our working capital and capital expenditure needs will be affected by several factors including general economic and market conditions, covenants in our existing debt and credit agreements, credit availability from banks and other financial institutions, investor confidence in us, our partners, our financial performance and the financial performance of our subsidiaries and associates, our levels of indebtedness, our cash flows, and tax and securities laws that may impact capital raising.

If we fail to secure sufficient cash flow from our operations or external financing to fund our working capital and capital expenditure required for our expansion plans, our production capacity expansion plans may be adversely affected or curtailed.

In addition, obtaining additional external financing may require us to sell additional equity or debt securities or obtain additional bank loans. The sale of additional equity or convertible debt securities could result in dilution to our Shareholders' equity interests and the incurrence of additional indebtedness would result in increased fixed obligations and could result in operating covenants that restrict our operations. Furthermore, we cannot assure you that financing will be available in amounts or on terms acceptable to us, such as significant increase in interest rate, if at all.

The global financial markets have experienced significant deterioration and volatility in the past three years, which have negatively impacted the global economy. Any further downturn may adversely affect our financial condition and results of operations.

For the past three years, the global financial markets have been affected by a general slowdown of economic growth in both the United States and globally, resulting in substantial volatility in global equity securities markets and tightening of liquidity in global credit markets. More recently, some European countries have experienced a debt crisis which has the potential to affect other members of the European Union as well as economic conditions globally. While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments may continue to present risks to our business operations for an extended period of time, including a potential slowdown in our chemical supplies to customers as they experience their own difficulties which may reduce their demand for our products, increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to us. The availability of credit to entities, such as ourselves, operating within emerging markets, is significantly influenced by the levels of investor confidence in such markets as a whole and any factors that may impact market confidence. Such factors may range from a mere decrease in credit ratings to a state or central bank intervention in a market. Since the start of the financial crisis, investors have grown more sensitive to market information, especially in relation to any credit difficulties. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads in credit markets, a reduction in available financing and a tightening of credit terms. Even though the market has been gradually improving since late 2009, it is difficult to predict whether such growth or recovery will persist and how long the after-effects of the financial crisis will continue to affect our business and the global economy as a whole.

Should there be a further economic downturn, credit or debt crisis for any reason, our ability to borrow funds from current or other funding sources may be further limited, causing our continued access to funds to become more expensive, which would materially and adversely affect our business, liquidity, results of operations, financial condition and, most importantly, our expansion projects. Moreover, apart from our access to funds, further economic downturn will also affect our customers, and may in turn reduce the demand for our products or affect their abilities to settle amounts owed to us in respect of previously supplied chemical products. As such, we cannot assure that our business operations will not suffer further adverse effects caused by the previous or future credit crisis in the near future.

RISKS RELATING TO THE PRC

PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects.

The PRC economy differs from the economies of most of the developed countries in many aspects, including:

- the amount and degree of the PRC government involvement;
- growth rate and degree of development;
- uniformity in the implementation and enforcement of laws;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. Our business, prospects and results of operations may be materially adversely affected by the policies of the PRC government, such as measures to control inflation and to tighten its monetary policies, changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion. These actions, as well as future actions and policies of the PRC government, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse impact on our business and financial condition.

Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations.

The PRC government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of China. We receive substantially all our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into foreign currency before they may pay cash dividends to us or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items may be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements.

However, approval from appropriate governmental authorities is required when Renminbi is converted into foreign currencies and remitted out of China for capital account transactions, such as the repatriation of equity investment in China and the repayment of the principal of loans or debt denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Subsequent to this Global Offering, we have the choice, as permitted by the PRC foreign investment regulations, to invest our net proceeds from this Global Offering in the form of registered capital or a shareholder loan into our PRC subsidiaries to finance our operations in China. Our choice of investment is affected by the relevant PRC regulations with respect to capital account and current account foreign exchange transactions in China. Our investment decisions are additionally affected by various other measures taken by the PRC government relating to the PRC chemical market, including those disclosed in the section headed "Regulations" to this prospectus. In addition, our transfer of funds to our subsidiaries in China is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by our PRC subsidiaries permit any such shareholder loans at all. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

Interpretation of the PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you.

Our core business is conducted in China and is governed by PRC laws and regulations. Our principal operating subsidiaries are located in China and are subject to the PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little if any precedential value and can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to the chemical industry. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Depending on the governmental agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

Fluctuations in the value of the Renminbi or the domestic currencies of our international customers may adversely affect our business and the value of distributions by our PRC subsidiaries.

The value of the Renminbi depends, to a large extent, on domestic and international economic, financial and political developments and China's governmental policies, as well as supply and demand in the local and international markets. Since 1999 till 2005, the conversion of the Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, was based on exchange rates set and published daily by the PBOC in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of Renminbi into the U.S. dollar was largely stable until July 2005. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar and the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of foreign currencies. The PRC government has since made further adjustments to the exchange rate system. The Renminbi appreciated 6.9%, 0.1% and 3.1% against the U.S. dollar in 2008, 2009 and 2010, respectively. The Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency in the future. Since our income and profits are primarily denominated in Renminbi, any appreciation of the Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of the Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation of the value of the Renminbi will also affect the amount of our foreign debt service in Renminbi terms since we have to convert Renminbi into foreign currencies to service our indebtedness in foreign currency. In addition, our international customers in our export markets, such as Japan, generally pay for our products in U.S. dollars. Fluctuations in our international customers' domestic currencies against the U.S. dollar may make our products more expensive to them and lead to a decrease in their demand for our products, which may in turn potentially lead to a reduction in our revenue and profitability. We currently do not hedge against our foreign exchange rate risk.

We may be deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to PRC tax on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability or otherwise adversely affect the value of your investment.

PRC enterprise income tax is calculated based on the taxable income determined under the PRC laws and accounting standards. On March 16, 2007, the National People's Congress of China enacted a new PRC Enterprise Income Tax Law (the "PRC EIT Law"), which became effective on January 1, 2008. On December 6, 2007, the State Council promulgated the Implementation Rules to the PRC Enterprise Income Tax Law, (the "Implementation Rules"), which also became effective on January 1, 2008. Under the PRC EIT Law, enterprises established outside of China whose "de facto management bodies" are located in China are considered to be "tax resident enterprises" and will generally be subject to the uniform 25% corporate income tax rate as to their aggregate income (excluding dividends received from "tax resident enterprises"). The Implementation Rules further defines "de facto management bodies" as bodies that have substantial or overall management or control over operations, personnel, finances, property, and other aspects of the enterprise. Uncertainty remains with respect to the interpretation of the relevant provisions in the PRC EIT Law, which is subject to further interpretation or clarification by the SAT. Since most of our Company's management is based in China, we may be treated as a Chinese tax resident enterprise for corporate income tax purposes. Moreover, the tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the PRC EIT Law or the Implementation Rules. If our Company or any of our subsidiaries registered outside the PRC is treated as a "tax resident enterprise" under the PRC EIT Law, our income tax expenses may increase significantly, and our profitability could decrease materially.

Further, current tax laws and their interpretation with respect to an investment in our Company could be subject to further adverse changes in the future. The applicable tax rates and exemptions could also be subject to change in the future. Any change in our tax status or in tax laws or their interpretation could affect the value of the investments held by our Company, our ability to provide returns to the Shareholders or the after-tax returns to the Shareholders. Statements in this prospectus concerning our taxation and our Company's investors are based on current tax laws and practices that are subject to change. In addition, the taxation regime applicable in China could change from time to time and could have an adverse impact on our after-tax profits. The occurrence of the above risks could have a material adverse effect on our business, financial condition and results of operations.

The strengthened scrutiny over acquisition and disposition transactions by the PRC tax authorities may have a negative impact on us or your disposition of our Shares.

Our operations and transactions are subject to review by the PRC tax authorities pursuant to relevant PRC laws and regulations. However, these laws, regulations and legal requirements change frequently, and their interpretation and enforcement involve uncertainties. For example, in connection with the PRC Enterprise Income Tax, the Ministry of Finance and State Administration of Taxation jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular 59. On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698. Both Circular 59 and Circular 698 became effective retroactively on January 1, 2008. Under the two circulars, if we or our relevant subsidiaries dispose of any equity interests, we and our subsidiaries may be subject to income tax on capital gains generated from such disposition of relevant equity interests. The PRC tax authorities have the discretion under Circular 59 and Circular 698 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. If the PRC tax authorities make such adjustment, our income tax costs will be increased.

By promulgating and implementing the circulars, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise. For example, Circular 698 specifies that the PRC State Administration of Taxation is entitled to redefine the nature of an equity transfer where offshore holding vehicles are interposed for tax-avoidance purposes and without reasonable commercial purpose. Further, non-resident enterprises may be required to file with the PRC tax authorities to report their indirect transfer of equity interests in a PRC resident company if certain criteria are met, such as where the transferred offshore holding vehicles are incorporated in a tax jurisdiction where the capital gains tax rate is less than 12.5% or there is no capital gains tax. It is not clear to what extent the holders of our Shares will be subject to these requirements. We have conducted and may conduct acquisitions and dispositions involving complex corporate structures, but we may not be able to make timely filings, with the PRC tax authorities as requested. The PRC tax authorities may, at their discretion, impose or adjust the capital gains on us or the holders of our Shares or request us or the holders of our Shares to submit additional documentation for their review in connection with any relevant acquisitions or disposition, and thus causing us or the holders of our Shares to incur additional costs.

Dividends payable by us to our foreign investors and gains on the sale of their Shares may become subject to withholding income tax under PRC tax laws.

Under the PRC EIT Law and the Implementation Rules, PRC withholding income tax at the rate of 10% is applicable to dividends payable by a PRC tax resident enterprise to investors that are "non-tax resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent that such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of shares of a PRC tax resident enterprise by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Under the Arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), which became effective on January 1, 2007, income tax on dividends payable to a company resident in Hong Kong that holds more than a 25% equity interest in a PRC resident enterprise may be reduced to a rate of 5%. However, according to the Circular of the SAT on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (《關於印發非居民享受稅收協議待遇管理辦法（試行）的通知》), which became effective on October 1, 2009, preferential tax rates under such treaties do not automatically apply and approvals from competent local tax authorities are required before an enterprise is entitled to such preferential tax treatments. In addition, according to a tax circular issued by the SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate to effectively deny its enjoyment by the relevant offshore entity.

For Shareholders that are non-tax resident enterprises, if we are considered a PRC "tax resident enterprise," it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realize from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC taxation. If we are required under the PRC EIT Law to withhold PRC income taxes on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in the Shares may be materially and adversely affected.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries incurs debt in its own name in the future, the instruments governing the debt may restrict dividends or other distributions to us.

Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC subsidiaries only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC subsidiaries are required to set aside a certain percentage of their after tax profits based on PRC accounting standards each year to their reserve fund in accordance with the requirements of relevant laws and provisions in their respective articles of association. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of conversion of foreign currencies into Renminbi may delay or prevent us from using the proceeds of this offering to make loans to our PRC subsidiaries or to make additional capital contributions to our PRC subsidiaries.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries. We may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries.

Any loan to our PRC subsidiaries which is treated as a foreign invested enterprise under PRC law are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the SAFE.

On August 29, 2008, the SAFE promulgated a regulation which restricts the conversion by a foreign invested enterprise of foreign currency registered capital into Renminbi by setting limitations on the usage of the converted Renminbi ("SAFE Circular 142"). SAFE Circular 142 provides that the Renminbi capital converted from foreign currency registered capital of a foreign invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, the SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The usage of such Renminbi capital may not be altered without SAFE's approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of SAFE Circular 142 could result in severe monetary or other penalties.

In light of the various requirements imposed by of PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, including SAFE Circular 142, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we expect to receive from this offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

The enforcement of the new PRC Labor Contract Law and increase in labor costs in the PRC may adversely affect our business and our profitability.

A new Labor Contract Law of the PRC came into effect on January 1, 2008 and its implementation rules were promulgated and became effective on September 18, 2008. The new Labor Contract Law and its implementation rules impose more stringent requirements on employers with regard to entering into written employment contracts, hiring temporary employees and dismissing employees. In addition, under the newly promulgated Regulations on Paid Annual Leave for Employees, which came into effect on January 1, 2008, and its Implementation Measures, which were promulgated and became effective on September 18, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at a rate of three times of their normal salaries for each waived vacation day. Such new law and regulations may increase our labor costs. In addition, certain companies operating in the PRC have experienced labor unrest conditions in 2010. We cannot assure you that these labor strikes will not affect general labor market conditions or result in changes to labor laws in the PRC, which in turn could adversely affect our business and financial condition. Increases in our labor costs and future disputes with our employees could adversely affect our business, results of operations and financial condition.

RISKS RELATING TO THE GLOBAL OFFERING

An active trading market in our Shares may not develop, which could have a material and adverse effect on our Share price and on your ability to sell your Shares.

Prior to the Global Offering, no public market existed for our Shares. The Offer Price for the Offer Shares will be determined by us and the Sole Global Coordinator and may differ significantly from the market price for our Shares following the completion of the Global Offering. We have applied to list our Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active trading market for our Shares will develop following the completion of the Global Offering or in the future. If an active public market for our Shares does not develop, the Shares could trade at a price lower than their initial offering price and you may not be able to resell your Shares for an extended period of time, if at all.

The trading volume and market price of our Shares may be volatile.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, changes in our pricing policy as a result of the presence of competitors, announcements of new technologies, strategic alliances or acquisitions, industrial or environmental accidents we may suffer, changes in our senior management personnel, changes in ratings by financial analysts and credit rating agencies, litigation, or fluctuations in the market prices for our products or raw materials could cause large and sudden changes in the volume and price at which our Shares will trade. In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

The Offer Price may not be indicative of prices that will prevail in the trading market.

The Offer Price will be the result of negotiations between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and us, and may differ from the market prices for our Shares after listing. Due to a gap between pricing and trading of the Offer Shares and that our Offer Shares will not commence trading on the Stock Exchange until the Listing Date, the initial trading price of the Offer Shares could be lower than the Offer Price.

You may 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 asset value per Share immediately prior to the Global Offering. Therefore, you and other purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma net tangible asset value of approximately HK$1.16 per Share, based on the maximum Offer Price of HK$3.25.

In order to expand our business, we may consider offering and issuing additional Shares or equity-linked securities in the future. You and other purchasers of our Shares may experience further dilution in the net tangible assets book value per Share if we issue additional Shares at a price lower than the net tangible assets book value per Share at the time of their issue.

Future offerings or sales of our Shares could adversely affect the prevailing market price of our Shares and result in dilution.

Future offerings or sales of our Shares by us or our Controlling Shareholders or other Shareholders in the public market, or the perception that such offerings or sales could occur, may cause the market price of our Shares to decline. See the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering" in this prospectus for details of restrictions that may apply to future sales of our Shares. After these restrictions lapse, the market price of our Shares may decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares (including the issuance of new Shares pursuant to the exercise of share options granted by us) or the perception that such sales or issuances may occur. This could also have a material and adverse effect on our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, if we issue additional Shares or share options in the future, you may experience further dilution.

We cannot guarantee the accuracy of facts, forecasts and other statistics derived from various official government publications with respect to China, the PRC economy and the PRC chemical industry contained in this prospectus.

Facts, forecasts and other statistics in this prospectus relating to China, the PRC economy and the PRC chemical industry have been derived from various official government publications. However, we cannot guarantee the quality or reliability of the source materials. They have not been prepared or independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Underwriters or any of our or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China. We have, however, exercised reasonable care in the reproduction and extraction of such facts, forecasts and statistics from the relevant official government publications for the purpose of inclusion in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the facts, forecasts and statistics in this prospectus may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to China, the PRC economy and the PRC chemical industry contained in this prospectus.

It may be difficult to effect service of process upon our Directors and senior management members who reside in mainland China or to enforce against us or them in mainland China any judgments obtained from non-PRC courts.

A majority of our Directors and senior management members reside in mainland China, and substantially all of our assets, and substantially all of the assets of those persons are located in mainland China. Therefore, it may be difficult for investors to effect service of process upon those persons inside mainland China or to enforce against us or them in mainland China any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands, the United States, the United Kingdom, Japan and many other countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

On July 14, 2006, the Supreme People's Court of the PRC and the Hong Kong government signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). Under this arrangement, which has been in effect since August 1, 2008, where any designated PRC Court of the Mainland or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a written choice-of-court agreement between the parties, any party concerned may apply to the relevant PRC Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. However, as rights under this arrangement are limited and the interpretation of and cases under this arrangement have not been fully developed, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Our Pre-IPO Share Option Scheme will have a dilutive effect on your shareholding percentage and may result in our issuances of Shares at prices lower than their trading price or fair market price.

Our grantees under the Pre-IPO Share Option Scheme may exercise their options in installments as provided in the scheme. The exercise price for all of our pre-IPO share options will be a price equivalent to the Offer Price. You may find additional disclosure about the terms and conditions of our Pre-IPO Share Option Scheme and outstanding options so far granted in the section entitled "Statutory and General Information — E. Pre-IPO Share Option Scheme" in Appendix VI to this prospectus. You should note that none of the grantees under our Pre-IPO Share Option Scheme have any obligation to exercise the Pre-IPO share options for our Shares. If our grantees exercise their pre-IPO share options, your shareholding in our Company will be subject to dilution in terms of your ownership percentage in our Company and in terms of the fair value of our Shares you hold. The dilutive effect on shareholding percentage assuming full exercise of the Pre-IPO Share Option Scheme is 2% of the total number of Shares issued and outstanding immediately upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised).