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## HISTORY AND REORGANIZATION

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### OUR HISTORY

Our Company was incorporated in the Cayman Islands on November 24, 2010 and, as part of the Reorganization, became the holding company of our various subsidiaries. Prior to the incorporation of our Company and the completion of the Reorganization, our business was conducted by our subsidiaries in the PRC, namely, Fujian Rongchang, Fujian Rongping and Fuzhou Yihua.

Our history can be traced to 1958 when Fuzhou Yihua Chemical Factory (福州第一化工廠), a state-owned enterprise and the predecessor of Fuzhou Yihua, was established in the PRC. Fuzhou Yihua Chemical Factory was one of the earliest chemical plants to produce chlorate salt in China.

Since our establishment, we have set up chemical plants to produce a range of chemicals including chlorate salt in China. In 1970, we established Fujian Fuwen, the predecessor of Fujian Rongchang, for producing hydrogen peroxide, liquid caustic soda and biurea. In 1992, we established Fujian Pingnan, the predecessor of Fujian Rongping, for producing sodium chlorate and potassium chlorate.

### Significant Milestones

The following highlights our significant development milestones:

- 1958 Fuzhou Yihua Chemical Factory, the predecessor of Fuzhou Yihua, was established, being one of the earliest chemical plants to produce chlorate salt in China.
- 1970 Fujian Fuwen Chemical Factory (福建省富文化工廠), the predecessor of Fujian Rongchang, was established for producing hydrogen peroxide, liquid caustic soda and biurea.
- 1992 Fujian Pingnan, the predecessor of Fujian Rongping, was established for producing sodium chlorate and potassium chlorate.
- 2000 We began to export sodium chlorate to Japan.
- 2002 Fuzhou Yihua established its branch office in Yongtai, Fuzhou.
- 2005 Through a number of entrustment arrangements, Mr. Liem acquired a controlling interest in each of Fujian Rongchang, Fujian Rongping and Fuzhou Yihua, which ceased to be wholly state-owned enterprises accordingly. Please refer to the paragraphs headed “Entrustment Arrangements” under this section for details.
- 2010 Our Parent Company completed a private equity financing which raised proceeds of approximately US\$40 million. Through such financing, Trophy Group became the beneficial owner of our Parent Company’s preferred shares.

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### Our Corporate Development

Set out below is a summary of the corporate development of our PRC subsidiaries:

#### *Fujian Rongchang*

On May 1, 1970, Fujian Fuwen Chemical Factory was established under the laws of the PRC. It was the predecessor of Fujian Fuwen, which was managed by Jianyang District Economic Committee (建陽地區經濟委員會). At the time of its establishment, Fujian Fuwen Chemical Factory was a state-owned enterprise.

On February 27, 1997, Fujian Fuwen was established under the laws of the PRC. It was the predecessor of Fujian Rongchang, which was managed by Shunchang Municipality Economic Committee (順昌縣經濟委員會). At the time of its establishment, most of the equity interests in Fujian Fuwen were state-owned interests.

On October 19, 2000, Fujian Fuwen changed its name to Fujian Nanping Rongchang Chemical Limited (福建省南平市榕昌化工有限公司) (“Nanping Rongchang”) and increased its registered capital from RMB12,820,000 to RMB18,010,000 of which RMB5,190,000 was contributed by Fuzhou Yihua Chemical Co., Ltd. (福州一化化學品有限公司), the predecessor of Fuzhou Yihua. Such increase in registered capital was duly filed with the Nanping Administration for Industry and Commerce. In addition, Nanping City National Asset Management Bureau (南平市國有資產管理局) transferred its entire equity interest in Nanping Rongchang to Fuzhou Yihua Chemical Co., Ltd. at a consideration of RMB4,010,000, which was determined with reference to the then registered capital of Nanping Rongchang. As a result of such transfer and increase in registered capital, Nanping Rongchang was held as to 51.08%, 12.22%, 30.59%, 1.11%, 1.11%, 2.78% and 1.11% by Fuzhou Yihua Chemical Co., Ltd., Fujian Fuwen Chemical Limited Union (福建富文化工有限公司工會) (“Fuwen Union”), Nanping City State-owned Assets Investments Operations Co, Ltd. (南平市國有資產投資經營有限公司) (“Nanping Investments”), Fujian Shunchang Fubao Co., Ltd. (福建省順昌縣富實業有限公司) (“Shunchang Fubao”), Fujian Nanping Minyan Small Hydroelectricity Development Limited (福建省南平閩延小水電開發公司) (“Nanping Hydroelectricity”), Fujian Nanping Tianyuan Fiber Co., Ltd (福建南平天元化纖有限公司) (“Nanping Fiber”) and Fujian Nanzhi Joint Stock Company (福建省南紙股份有限公司) (“Fujian Nanzhi”), respectively.

On July 27, 2001, Nanping Rongchang increased its registered capital from RMB18,010,000 to RMB36,760,000 of which RMB9,550,000 was contributed by Fuzhou Yihua Chemical Co., Ltd. and RMB9,200,000 was contributed by Nanping Investments. Such increase in registered capital was duly filed with the Nanping Administration for Industry and Commerce. Pursuant to such increase in registered capital, Nanping Rongchang was held as to 51%, 6%, 40.02%, 0.54%, 0.54%, 1.36% and 0.54% by Fuzhou Yihua Chemical Co., Ltd., Fuwen Union, Nanping Investments, Shunchang Fubao, Nanping Hydroelectricity, Nanping Fiber and Fujian Nanzhi, respectively.

Pursuant to Notice in Relation to the Delegation of Management Function Arrangement by Originally City Owned Enterprises issued by Shunchang County Municipal Government (《順昌縣人民政府關於原市屬企業下放後管理職能安排的通知》), Shunchang State-owned Assets Investments Holdings Limited (順昌國有資產投資控股有限公司) was authorized to operate the state-owned assets in Fujian Rongchang, originally held as to 40.02% by Nanping Investments, and it was vested with the rights and obligations of Nanping Investments as an investor.

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On September 15, 2002, Fuwen Union entered into a share transfer agreement with all the other shareholders of Nanping Rongchang, pursuant to which Fuwen Union transferred its 6% equity interest to all the other shareholders on a pro-rata basis and Fuzhou Yihua Chemical Co., Ltd. paid a pro-rata consideration of RMB1,200,000 for its share of 3.27% equity interest in Nanping Rongchang. Such consideration was determined with reference to the then registered capital of Nanping Rongchang. As a result of such transfer, Nanping Rongchang was held as to 54.27%, 42.58%, 0.57%, 0.57%, 1.44% and 0.57%, by Fuzhou Yihua Chemical Co., Ltd., Shunchang Investments, Shunchang Fubao, Nanping Hydroelectricity, Nanping Fiber and Fujian Nanzhi, respectively.

On September 22, 2005, Shunchang Investments and Fujian Kaili Investments Limited (福建凱利投資有限公司) (“Kaili Investments”) entered into a state-owned asset transfer agreement, pursuant to which Shunchang Investments transferred to Kaili Investments its 42.58% equity interest in Nanping Rongchang at a consideration of RMB30,197,000, which was determined based on the appraised value of Nanping Rongchang at that time. As a result, the equity interest of Nanping Rongchang was owned as to 54.27%, 42.58%, 0.57%, 0.57%, 1.44% and 0.57% by Fuzhou Yihua, Kaili Investments, Shunchang Fubao, Fujian Nanping Electricity Bureau Electricity Construction Company (“Nanping Electricity”), Nanping Fiber and Fujian Nanzhi, respectively. The 42.58% equity interest was held by Kaili Investments on trust for Mr. Liem. For details of the entrustment arrangements, please see the paragraphs headed “Entrustment Arrangements” in this section.

On December 8, 2005, Nanping Rongchang increased its registered capital from RMB36,760,000 to RMB46,960,000. Such increase in registered capital was duly filed with the Shunchang Administration for Industry and Commerce. Upon completion of such increase, the equity interest held by Kaili Investments in Nanping Rongchang was increased to 55.04% and the remaining equity interest in Nanping Rongchang was held as to 42.48%, 0.45%, 0.45%, 1.13% and 0.45% by Fuzhou Yihua, Shunchang Fubao, Nanping Electricity, Nanping Fiber and Fujian Nanzhi, respectively.

On January 17, 2006, Fuzhou Yihua and Kaili Investments entered into a share transfer agreement, pursuant to which Kaili Investments acquired 42.48% equity interest in Nanping Rongchang from Fuzhou Yihua at a consideration of RMB25,000,000, which was determined with reference to the appraised value of Nanping Rongchang at that time. As a result of such transfer, Nanping Rongchang was owned as to 97.52% by Kaili Investments on trust for Mr. Liem and as to 0.45%, 0.45%, 1.13% and 0.45% by Shunchang Fubao, Nanping Electricity, Nanping Fiber and Fujian Nanzhi, respectively.

On May 15, 2006, Fujian Nanzhi transferred its 0.45% equity interest in Nanping Rongchang to Kaili Investments at a consideration of RMB210,000, which was determined with reference to the then registered capital of Nanping Rongchang. On the same day, Nanping Rongchang increased its registered capital from RMB46,960,000 to RMB51,000,000. Such increase in registered capital was duly filed with the Shunchang Administration for Industry and Commerce. Pursuant to such transfer and increase in registered capital, Nanping Rongchang was held as to 98.14% by Kaili Investments on trust for Mr. Liem and as to 0.41%, 0.41% and 1.04% by Shunchang Fubao, Nanping Electricity and Nanping Fiber, respectively.

In June and July 2007, Kaili Investments acquired an aggregate of 1.86% equity interest in Nanping Rongchang from three other shareholders, all of whom were Independent Third Parties, at an aggregate consideration of RMB1,060,000. The consideration was determined based on arm’s length negotiation. As a result of such acquisitions, Nanping Rongchang was owned as to 100% by Kaili Investments on trust for Mr. Liem.

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On July 30, 2007, Fujian Shunchang Kaili Logistics Co., Limited (福建省順昌凱利物流有限公司) (“Kaili Logistics”) and Kaili Investments entered into a share transfer agreement pursuant to which Kaili Investments transferred to Kaili Logistics its 0.06% equity interest in Nanping Rongchang at a consideration of RMB30,000, which was determined with reference to the then registered capital of Nanping Rongchang. As a result of such transfer, Nanping Rongchang was owned as to 99.94% by Kaili Investments on trust for Mr. Liem and as to 0.06% by Kaili Logistics, respectively.

On November 22, 2007, Nanping Rongchang changed its name to Fujian Rongchang.

On January 1, 2008, China Yihua entered into a share transfer agreement with each of Kaili Investments and Kaili Logistics, pursuant to which Kaili Investments and Kaili Logistics transferred its 99.94% and 0.06% equity interest, respectively, in Fujian Rongchang to China Yihua for the consideration of RMB74,631,235.49 and RMB44,805.62, respectively. Such considerations were determined with reference to the net asset value of Fujian Rongchang at that time. Such equity interest transfer was approved by the Fujian Provincial Department of Foreign Trade and Economic Cooperation by issuing an official reply on May 23, 2008 and Fujian Rongchang obtained the Certificate of Approval for Establishment of Enterprises with Foreign Investment issued by the Fujian People’s Government on June 10, 2008. As a result of such transfer, China Yihua owned 100% equity interest in Fujian Rongchang. On June 11, 2009, the registered capital of Fujian Rongchang was increased from RMB51,000,000 to RMB101,000,000. Such increase in registered capital was duly approved by the Fujian Provincial Department of Foreign Trade and Economic Cooperation and filed with the Fujian Administration for Industry and Commerce.

### *Fujian Rongping*

On December 26, 2002, Fujian Rongping was established under the laws of the PRC. The predecessor of Fujian Rongping was Fujian Pingnan, a chemical plant jointly operated and owned by Fuzhou Yihua Chemical Factory and Pingnan Electricity as to 70% and 30%, respectively. At the time of its establishment, Fujian Rongping was owned by Fuzhou Yihua Chemical Co., Ltd. Union (福州一化化學品有限公司工會) (“Fuzhou Yihua Union”), Fuzhou Kaiqi Investments Limited (福州凱奇投資有限公司) (“Kaiqi Investments”), Fujian Pingnan Hydroelectricity Development Limited (屏南縣水電開發公司) (“Pingnan Hydroelectricity”), Pingnan Xinlei Crystal Limited (屏南鑫磊晶體有限公司) (“Pingnan Xinlei”), Chaohu Chemical Light Industry Company (巢湖市化工輕工總公司) (“Chaohu Chemical”), Fuzhou Xufeng Special Solvent Oil Co., Ltd. (福州旭峰特種溶劑油品有限公司) (“Fuzhou Xufeng”), Mr. Wang Mingwen (王命文), Ms. Chen Huayun (陳華雲), Mr. Wang Zhengbiao (王征標) and Ms. He Jinyun (何錦雲) as to 23.04%, 17.65%, 9.37%, 8.82%, 1.96%, 1.96%, 11.77%, 10.78%, 9.75% and 4.9%, respectively.

Pursuant to a share transfer agreement dated April 22, 2003, Kaiqi Investments acquired a 1.96% equity interest in Fujian Rongping from Chaohu Chemical, an Independent Third Party, at a consideration of RMB2,000,000, which was determined with reference to the then registered capital of Fujian Rongping.

Pursuant to a share transfer agreement dated April 22, 2003, Ms. He Jinyun transferred her 4.9% equity interest in Fujian Rongping to Ms. Chen Huayun at a consideration of RMB5,000,000.

Pursuant to a share transfer agreement dated February 18, 2004, Kaiqi Investments acquired a 4.69% equity interest in Fujian Rongping from Pingnan Hydroelectricity, an Independent Third Party, at a consideration of RMB4,780,000.

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Pursuant to a share transfer agreement dated February 19, 2004, Kaiqi Investments acquired a 8.82% equity interest in Fujian Rongping from Pingnan Xinlei, an Independent Third Party, at a consideration of RMB9,000,000.

Pursuant to a share transfer agreement dated February 19, 2004, Kaiqi Investments acquired a 9.8% equity interest in Fujian Rongping from Fuzhou Yihua Union, an Independent Third Party, at a consideration of RMB10,000,000.

Pursuant to the two share transfer agreements both dated February 19, 2004, Ms. Chen Huayun acquired a 13.24% equity interest in Fujian Rongping from Fuzhou Yihua Union at a consideration of RMB13,500,000, and a 1.96% equity interest in Fujian Rongping from Fuzhou Xufeng at a consideration of RMB2,000,000, respectively.

The considerations of the aforementioned transfers were determined with reference to the then registered capital of Fujian Rongping. As a result of such transfers, Fujian Rongping was held as to 42.92%, 35.56%, 11.77% and 9.75% by Kaiqi Investments, Ms. Chen Huayun, Mr. Wang Mingwen and Mr. Wang Zhengbiao, respectively.

Pursuant to a share transfer agreement dated August 15, 2004, Fujian Kaisheng Investments Limited (福建凱盛投資有限公司) (formerly known as Kaiqi Investments) transferred its 42.92% equity interest, and Mr. Wang Mingwen transferred his 11.77% equity interest, in Fujian Rongping to Ms. Chen Xiahong (陳嚇紅), an Independent Third Party, at a consideration of RMB43,778,800 and RMB12,000,000, respectively, which were determined with reference to the then registered capital of Fujian Rongping.

As a result of the aforementioned transfers, Fujian Rongping was owned as to 54.69%, 35.56% and 9.75% by Ms. Chen Xiahong (陳嚇紅), Ms. Chen Huayun and Mr. Wang Zhengbiao, respectively.

Pursuant to a share transfer agreement dated October 13, 2004, Ms. Chen Xiahong (陳嚇紅) transferred her 20% equity interests in Fujian Rongping to Mr. Yu Enhou (俞恩厚), an Independent Third Party, at a consideration of RMB20,400,000, which was determined with reference to the registered capital of Fujian Rongping. On the same day, Ms. Chen Xiahong (陳嚇紅) transferred her 2.69% equity interest, and Ms. Chen Huayun transferred her 11.31% equity interest, in Fujian Rongping to Ms. Wang Yuzhi (王玉芝) at a consideration of RMB2,743,800 and RMB11,536,200, respectively, which were determined with reference to the then registered capital of Fujian Rongping.

As a result of the aforementioned transfers, Fujian Rongping was owned as to 32%, 24.25%, 9.75%, 20% and 14% by Ms. Chen Xiahong (陳嚇紅), Ms. Chen Huayun, Mr. Wang Zhengbiao, Mr. Yu Enhou and Ms. Wang Yuzhi, respectively.

Pursuant to a share transfer agreement dated May 18, 2005, Mr. Li Jiannan (李劍南), an Independent Third Party, acquired a 9.75% equity interest in Fujian Rongping from Mr. Wang Zhengbiao at a consideration of RMB9,950,000, which was determined with reference to the then registered capital of Fujian Rongping.

Pursuant to a share transfer agreement dated May 23, 2005, Mr. Wei Yuhua (魏聿華), an Independent Third Party, acquired a 32% equity interest in Fujian Rongping from Ms. Chen Xiahong (陳嚇紅), at a

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consideration of RMB32,635,000, which was determined with reference to the then registered capital of Fujian Rongping.

Pursuant to a share transfer agreement dated May 23, 2005, Kaili Investments acquired a 3% equity interest in Fujian Rongping from Mr. Yu Enhou at a consideration of RMB3,060,000, which was determined with reference to the then registered capital of Fujian Rongping.

Pursuant to two share transfer agreements both dated May 23, 2005, Mr. Li Jiannan acquired 24.25% and 2% equity interests in Fujian Rongping from Ms. Chen Huayun and Mr. Yu Enhou, two other shareholders of Fujian Rongping, at a consideration of RMB24,735,000 and RMB2,040,000, respectively, which were determined with reference to the then registered capital of Fujian Rongping.

Pursuant to a share transfer agreement dated May 23, 2005, Mr. Yu Enhou transferred his 15% equity interest in Fujian Rongping to Ms. Chen Xiahong (陳嚇洪) at a consideration of RMB15,300,000, which was determined with reference to the then registered capital of Fujian Rongping.

Pursuant to a share transfer agreement dated May 23, 2005, Ms. Wang Yuzhi transferred her 14% equity interest in Fujian Rongping to Sichuan Sanqiu Trading Limited Company (四川三秋商貿有限責任公司) (“Sichuan Sanqiu Trading”) at a consideration of RMB14,280,000, which was determined with reference to the then registered capital of Fujian Rongping.

As a result of the aforementioned transfers, Fujian Rongping was owned as to 36%, 32%, 14%, 15% and 3% by Mr. Li Jiannan, Mr. Wei Yuhua, Sichuan Sanqiu Trading, Ms. Chen Xiahong (陳嚇洪) and Kaili Investments, respectively. Mr. Li Jiannan and Mr. Wei Yuhua held their interests in Fujian Rongping on trust for Mr. Liem. For details of the entrustment arrangements, please see the paragraphs headed “Entrustment Arrangements” in this section.

Pursuant to a share transfer agreement dated April 23, 2006, each of Mr. Li Jiannan, Kaili Investments, Ms. Chen Xiahong (陳嚇洪) and Sichuan Sanqiu Trading transferred their entire equity interests in Fujian Rongping, and Mr. Wei Yuhua transferred his 7% equity interest in Fujian Rongping, representing an aggregate of 75% of the registered capital of Fujian Rongping, to Mr. Zhang Ping (張平) and Mr. Ma Duo (馬鐸) in equal share at an aggregate consideration of RMB76,500,000. On the same day, Mr. Wei Yuhua transferred his remaining 25% equity interest to Mr. Zhang Ping and Mr. Ma Duo in equal share at a consideration of RMB25,500,000. The consideration for each of the aforementioned transfers was determined with reference to the then registered capital of Fujian Rongping. As a result of such transfers, Fujian Rongping was owned as to 50% by Mr. Zhang Ping and 50% by Mr. Ma Duo, respectively, on trust for Mr. Liem.

Pursuant to a share transfer agreement dated August 29, 2009, Mr. Zhang Ping and Mr. Ma Duo transferred their entire equity interests in Fujian Rongping to Fujian Rongchang at an aggregate consideration of RMB102,000,000, which was determined with reference to the then registered capital of Fujian Rongping. Pursuant to such transfer and prior to the Reorganization, Fujian Rongping was owned as to 100% by Fujian Rongchang.

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### *Fuzhou Yihua*

Fuzhou Yihua was established on June 7, 2003 under the laws of the PRC. Its predecessor was Fuzhou Yihua Chemical Co., Ltd., established in the PRC on February 27, 1998. At the time of its establishment, Fuzhou Yihua was owned as to 50%, 26.11%, 20%, 2.73%, 0.73%, and 0.43% by Fujian Rongping, Fuzhou Yihua Group Limited (福州一化集團公司) (“Fuzhou Yihua Group”), Fujian Yongtai Hydropower Development Co., Ltd. (福建省永泰縣水電發展有限公司) (“Yongtai Hydropower”), Qinghai Salt Lake Potash Co., Ltd. (青海鹽湖鉀肥股份有限公司) (“Qinghai Salt Lake”), Hubei Kaiyuan Salt Co., Ltd. (湖北開元製鹽股份有限公司) and Jieyang Panyi Chemical Materials Co., Ltd. (揭陽市區磐藝化工物資有限公司), respectively.

Pursuant to two share transfer agreements dated June 24, 2005 and October 15, 2007, respectively, and a confirmation letter dated October 26, 2007, Fujian Rongping acquired a 1.16% equity interest in Fuzhou Yihua from two other shareholders at an aggregate consideration of RMB768,000, which was determined on an arm’s length basis. Pursuant to such transfer, Fuzhou Yihua was owned as to 51.16%, 26.11%, 20% and 2.73% by Fujian Rongping, Fuzhou Yihua Group, Yongtai Hydropower and Qinghai Salt Lake, respectively.

Pursuant to two state-owned share transfer agreements both dated September 3, 2008, Fujian Rongping acquired an aggregate of 46.11% equity interest in Fuzhou Yihua from Fuzhou Yihua Group and another shareholder, both of whom are Independent Third Parties, at a consideration of RMB20,098,000 and RMB15,395,000, respectively. The considerations for such transfers were determined with reference to the appraised value of Fuzhou Yihua at that time.

On November 5, 2008, Qinghai Salt Lake Potash transferred its 2.73% equity interest in Fuzhou Yihua to Fujian Dajia Investments Co., Ltd. (福建大家投資有限公司) (“Dajia Investments”) at a consideration of RMB0.5 per share, which was determined with reference to the appraised value of Fuzhou Yihua.

As a result of the aforementioned transfers, Fuzhou Yihua was owned as to 97.27% and 2.73% by Fujian Rongping and Dajia Investments, respectively.

### **Entrustment Arrangements**

Prior to our Reorganization, Mr. Liem’s interests in Fujian Rongchang was held by Kaili Investments on trust for Mr. Liem. Mr. Liem’s interest in Fujian Rongping was held by Mr. Li Jiannan and Mr. Wei Yuhua, who were subsequently replaced by Mr. Ma Duo and Mr. Zhang Ping, respectively, on trust for Mr. Liem.

According to an entrustment investment agreement dated July 6, 2005 entered into between Kaili Investments and Mr. Liem, an entrustment shareholding agreement dated October 21, 2005 and two supplemental entrustment shareholding agreements dated May 19, 2006 and August 18, 2007, respectively, entered into by and among Mr. Liem, Kaili Investments and Fujian Rongchang, and a entrustment investment agreement dated September 18, 2007 entered into by and among Mr. Liem, Kaili Investments and Fujian Rongchang, Mr. Liem nominated Kaili Investments as his nominee to hold his equity interest in Fujian Rongchang on his behalf.

According to an entrustment shareholding agreement dated July 16, 2005 entered into by and among Mr. Liem, Mr. Wei Yuhua, Mr. Li Jiannan and Fujian Rongping, Mr. Liem nominated Mr. Li Jiannan and

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Mr. Wei Yuhua as his nominees to hold an aggregate of 68% equity interest in Fujian Rongping on his behalf. Prior to the acquisitions of equity interests in Fujian Rongping by Mr. Wei Yuhua and Mr. Li Jiannan on behalf of Mr. Liem, the three of them entered into an oral agreement regarding the relevant acquisitions and entrustment arrangement. Since Mr. Liem did not visit the PRC frequently during that period, and based on the close social relationship and trust maintained among the three of them, Mr. Liem, Mr. Wei Yuhua and Mr. Li Jiannan did not enter into a formal written agreement, but relied on the oral agreement, to proceed and complete the acquisition. Two months later, Mr. Wei Yuhua, Mr. Li Jiannan and Mr. Liem entered into formal written entrustment agreements to confirm their previous oral agreement.

According to an entrustment shareholding agreement dated April 17, 2006 entered into by and among Mr. Liem, Mr. Ma Duo and Mr. Zhang Ping, Mr. Liem nominated Mr. Ma Duo and Mr. Zhang Ping as his nominees to hold an aggregate of 100% equity interest in Fujian Rongping on his behalf.

In 2006, as Mr. Wei Yuhua was pre-occupied with the acquisition of Fujian Rongchang and his duties as a director of Fujian Rongchang, he was no longer assigned to manage the affairs of Fujian Rongping. Meanwhile, Mr. Li Jiannan no longer served as a trustee since he was pre-occupied with his own business. As such, Mr. Zhang Ping and Mr. Ma Duo were appointed as trustees to manage Fujian Rongping in place of Mr. Wei Yuhua and Mr. Li Jiannan.

Details of the aforementioned entrustment arrangements are as follows:

<u>Name of subsidiary</u>	<u>Name of Nominee</u>	<u>Relationship with Mr. Liem / Fuzhou Yihua</u>	<u>Total percentage held</u>	<u>Date of Entrustment Arrangement</u>
Fujian Rongchang . . . . .	Kaili Investments	independent third party	99.94% <sup>(1)</sup>	July 6, 2005 <sup>(2)</sup>
Fujian Rongping . . . . .	Mr. Wei Yuhua	independent third party	32%	July 16, 2005
	Mr. Li Jiannan	independent third party	36%	July 16, 2005
	Mr. Ma Duo	independent third party	50%	April 17, 2006
	Mr. Zhang Ping	independent third party	50%	April 17, 2006

*Notes:*

(1) *As at July 30, 2007.*

(2) *As supplemented by entrustment agreements dated October 21, 2005, May 19, 2006, August 18, 2007 and September 18, 2007, respectively.*

Mr. Liem had the necessary RMB funding in the PRC to complete his investments in Fujian Rongchang and Fujian Rongping. However, as Mr. Liem was not a resident in the PRC, he nominated a number of PRC residents, including Mr. Wei Yuhua, Mr. Li Jiannan, Mr. Ma Duo and Mr. Zhang Ping, to hold his interest in Fujian Rongping on his behalf, and Kaili Investments to hold his interest in Fujian Rongchang on his behalf. This was to ensure that these former state-owned enterprises could be managed more efficiently in the transition period after their restructuring into private enterprises. A range of new



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measures to streamline operations and increase profitability had to be implemented. Such measures included laying off excess staff and implementing a new remuneration system. To effectively manage and drive changes in these former state-owned enterprises in the transition period after their restructuring into private enterprises, Mr. Liem, as a non-Chinese national, sought to find someone who was a Chinese citizen familiar with the culture of state-owned enterprises, and able to communicate with the staff of Fujian Rongchang and Fujian Rongping and obtain their support. As such, for practical management reasons, Mr. Liem entered into entrustment agreements with Kaili Investments and several PRC nationals to hold his interests in Fujian Rongchang and Fujian Rongping, such that the nominees were deemed by the staff of Fujian Rongchang and Fujian Rongping as the real owners who were responsible for the operations of Fujian Rongchang and Fujian Rongping.

Kaili Investments was established under the laws of the PRC on October 12, 2004, with its registered office in Fuzhou, PRC. Kaili Investments was owned as to 51% by Mr. Liu Xiaozhong (劉曉忠) and as to 49% by Mr. Wang Wei (王偉), both of whom are Independent Third Parties, respectively. Save as disclosed in this prospectus, Kaili Investments did not have and does not have any relationships with the Company, its subsidiaries, their shareholders and directors or any of their respective associates.

Mr. Zhang Ping has been the director of Fuzhou Yihua since November 5, 2008. Mr. Wei Yuhua was the director of Fujian Rongchang from December 1, 2005 to December 10, 2009. Save as disclosed in this prospectus, the PRC nationals who acted as nominees for Mr. Liem under the entrustment arrangements did not have and does not have any relationships with the Company, its subsidiaries, their shareholders and directors or any of their respective associates.

The acquisitions of the equity interests in Fujian Rongchang and Fujian Rongping by the PRC nationals who acted as nominees for Mr. Liem were financed by cash provided by Mr. Liem.

Our PRC legal adviser has advised that the aforementioned entrustment agreements were legal, valid and enforceable under the applicable PRC laws. Our PRC legal adviser has confirmed that there was no legal impediment for Mr. Liem to acquire and hold equity interests in Fujian Rongchang and Fujian Rongping directly at the relevant times. Mr. Liem entered into entrustment agreements with the relevant nominees to hold his equity interests in Fujian Rongchang and Fujian Rongping in 2005. According to the Catalog for the Guidance of Foreign Investment Industries (2004) which was then in effect in 2005, the business in which Fujian Rongchang was engaged, i.e., the production and distribution of caustic soda (by diaphragm electrolysis method), hydrogen peroxide, liquid chlorine and ADC foaming agent, and the business in which Fujian Rongping was engaged, i.e., the production and distribution of sodium chlorate, potassium chlorate, both fell within the category that was permitted for foreign investments in the PRC. These entrustment arrangements were terminated upon China Yihua's acquisition of the entire equity interest in Fujian Rongchang and Fujian Rongchang's acquisition of the entire equity interest in Fujian Rongping from the relevant nominees in June 2008 and August 2009, respectively.

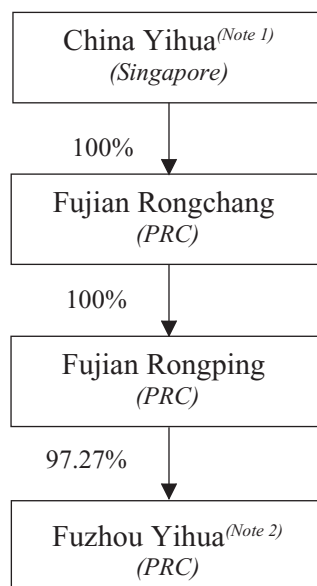
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## HISTORY AND REORGANIZATION

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### OUR REORGANIZATION

Immediately prior to our Reorganization, the shareholding structure of our Group was as follows:



Note 1. China Yihua was wholly owned by Mr. Liem.

Note 2. The remaining 2.73% equity interest in Fuzhou Yihua was held by Dajia Investments, an Independent Third Party.

In preparation for the Global Offering, we underwent the following Reorganization:

#### ***Incorporation of Parent Company***

On January 28, 2010, Parent Company was incorporated in the Cayman Islands. The initial authorized share capital of Parent Company was US\$150,000 divided into 115,000,000 ordinary shares of US\$0.001 each and 35,000,000 series A preferred shares of US\$0.001 each.

Upon its incorporation, Parent Company was held as to 100% by China Yihua, a company wholly owned by Mr. Liem.

#### ***Incorporation of Longpower and Sun Champ***

##### *Longpower*

On December 3, 2009, Longpower was incorporated in Hong Kong and its entire issued share capital was held by GNL09 Limited, being the subscriber of Longpower and an Independent Third Party.

On January 29, 2010, China Yihua acquired the entire issued share capital of Longpower from GNL09 Limited for a consideration of HK\$1.00.

On February 12, 2010, Parent Company acquired the entire issued share capital of Longpower from China Yihua for a consideration of HK\$1.00.

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## HISTORY AND REORGANIZATION

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### *Sun Champ*

On March 18, 2010, Sun Champ was incorporated in Hong Kong and its entire issued share capital was held by GNL10 Limited, being the subscriber of Sun Champ and an Independent Third Party.

On May 4, 2010, Parent Company acquired the entire issued share capital of Sun Champ from GNL10 Limited for a consideration of HK\$1.00.

### ***Reorganization of Fujian Rongchang, Fuzhou Yihua and Fujian Rongping***

#### *Fujian Rongchang*

On February 1, 2010, China Yihua entered into a share transfer agreement with Longpower, pursuant to which China Yihua transferred its entire equity interest in Fujian Rongchang to Longpower for a consideration of HK\$5,000. Such equity interest transfer was approved by Fujian Provincial Department of Foreign Trade and Economic Cooperation by issuing an official reply on February 9, 2010 and Fujian Rongchang obtained the Certificate of Approval for Establishment of Enterprises with Foreign Investment issued by Fujian People's Government on the same day. As a result of such transfer, Longpower owned 100% equity interest in Fujian Rongchang.

#### *Fuzhou Yihua*

Pursuant to a share transfer agreement dated March 6, 2010, Fujian Rongping transferred its entire equity interest in Fuzhou Yihua to Fujian Rongchang at a consideration of RMB91,615,900, which was determined on an arm's-length basis. Upon completion of such transfer, Fuzhou Yihua was owned as to 97.27% by Fujian Rongchang and as to 2.73% by Dajia Investments, an Independent Third Party, respectively.

#### *Fujian Rongping*

On May 14, 2010, Fujian Rongchang entered into a share transfer agreement with Sun Champ, pursuant to which Fujian Rongchang transferred its entire equity interest in Fujian Rongping to Sun Champ for a consideration of RMB102,000,000, which was determined with reference to the then registered capital of Fujian Rongping. Such equity interest transfer was approved by Fujian Provincial Department of Foreign Trade and Economic Cooperation by issuing an official reply on July 26, 2010 and Fujian Rongping obtained the Certificate of Approval for Establishment of Enterprises with Foreign Investment issued by Fujian People's Government on July 28, 2010. As a result of such transfer, Sun Champ owned 100% equity interest of Fujian Rongping.

### ***Trophy Group Investment***

On February 5, 2010, a subscription agreement was entered into by and among Parent Company, Fujian Rongchang, Fujian Rongping, Fuzhou Yihua, China Yihua, Mr. Liem and Trophy Group, pursuant to which Trophy Group subscribed 30,008,352 Series A Shares of Parent Company for an aggregate subscription price of US\$40 million (the "Subscription"). Upon completion of the Subscription on February 24, 2010, Parent Company was held as to 69.9916% by China Yihua and 30.0084% by Trophy Group, respectively. The consideration of the Subscription was fully paid on the same day.

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## HISTORY AND REORGANIZATION

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Trophy Group is an investment holding company incorporated in the British Virgin Islands, and is wholly owned by China Harvest Fund II, L.P., a limited partnership organized and existing under the laws of the Cayman Islands focusing on making private equity investments in China. The partners of China Harvest Fund II, L.P. include institutional investors and wealthy individuals and their family members. The ultimate general partner of China Harvest Fund II, L.P. is China Renaissance Capital Investment II GP, a limited liability company incorporated in the Cayman Islands. The Shares to be held by Trophy Group upon completion of the Global Offering will be subject to a lock-up period of six months from the Listing Date and will not be counted as part of the public float.

### Shareholders' Agreement

In connection with the issuance of the Series A Preferred Shares, Parent Company, Mr. Liem, China Yihua and Trophy Group entered into a shareholders' agreement (the "Shareholders' Agreement") on February 23, 2010.

Pursuant to the Shareholders' Agreement, Trophy Group is entitled to registration rights and certain preferential rights, including dividend preference, liquidation preference, redemption rights, right of first refusal, co-sale right in the event that our ordinary shareholders transfer any ordinary shares and veto rights on certain corporate actions. Such corporate actions include, among others, amendments to the articles of association, making any change to the accounting policies and/or procedures of any member of Parent Company and its subsidiaries and branches (the "Parent Group") unless otherwise required by applicable laws, disposition of any equity equivalents of any member of the Parent Group or held by any member of the Parent Group, making any filing with respect to any member of the Parent Group for the appointment of a receiver, administrator or other form of external manager for the winding up, liquidation, bankruptcy or insolvency of any member of the Parent Group or the passing of any resolution in respect of the same, effecting any merger, consolidation, scheme of arrangement, recapitalization or sale or other disposition of all or substantially all of the assets and/or equity equivalents of any member of the Parent Group. As of the Latest Practicable Date, the Series A Shares holders had not exercised their veto rights under the Shareholders' Agreement.

The rights and obligations of each shareholder under the Shareholders' Agreement will terminate as to such shareholder upon the consummation of the Global Offering.

The introduction of Trophy Group as an investor provided us with funds to make additional capital expenditures required for our Pingnan Hydrogen Peroxide Production Projects (屏南雙氧水生產項目) and Shunchang Rongchang Ion Membrane Caustic Soda Technology Improvement Project (順昌榕昌離子膜燒鹼技改項目), both of which started construction in 2009. We believe the introduction of Trophy Group as an investor validates the quality of our business and improves our corporate governance through the more stringent requirements of Trophy Group. In addition, we believe that the partnership with Trophy Group will enhance our corporate recognition, and creates prospects for new business opportunities in the international market.

At the time of Trophy Group's investment, the parties expected that Parent Company would conduct an initial public offering of its shares on the Stock Exchange or another internationally recognized stock exchange of similar reputation. It was provided in the amended and restated memorandum and articles of association of Parent Company that holders of Series A Shares have the right, at their option, to convert, all or any portion of the Series A Shares into ordinary shares of Parent Company at a prescribed conversion

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## HISTORY AND REORGANIZATION

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rate at any time and from time to time without the payment of additional consideration thereof. The Series A Shares shall also be automatically converted into ordinary shares of Parent Company at a prescribed conversion rate upon the closing of a qualified initial public offering, which is a firm-commitment underwritten initial public offering by Parent Company of its ordinary shares on an internationally recognized stock exchange with minimum gross proceeds of US\$100 million and at a price per share (calculated on an as converted and fully diluted basis) implying a market capitalization of Parent Company prior to such offering of at least US\$400 million.

As a result of our Reorganization, Parent Company will not be the listing vehicle. Instead, our Company was set up to be the listing vehicle so as to ensure that the listed company has a clearer and less complicated shareholding structure. Consequently, in line with the original expectation of the parties, appropriate arrangements were made for Trophy Group to exchange its interest in Parent Company for an equivalent percentage of ownership in our Company immediately prior to commencement of the dealing of our Shares on the Stock Exchange on the Listing Date.

### *Establishment of our Company*

Our Company was incorporated in the Cayman Islands on November 24, 2010 to act as the listing vehicle of our Group. The initial authorized share capital of our Company was HK\$250,000,000 divided into 2,500,000,000 Shares of HK\$0.10 each. Upon incorporation of our Company, one Share was allotted and issued to Parent Company.

### *Establishment of intermediate holding companies*

Two intermediate companies, Yihua Alpha and Yihua Beta, were both incorporated in BVI on December 3, 2010, to act as the intermediate holding companies for our Company's interests in Longpower and Sun Champ, respectively. The initial authorized share capital of each of Yihua Alpha and Yihua Beta was US\$50,000 divided into 50,000 share of US\$1.00 each. Following its incorporation, one fully paid share of each of these intermediate holding companies was allotted and issued to our Company.

### *Share swap between our Company and Parent Company*

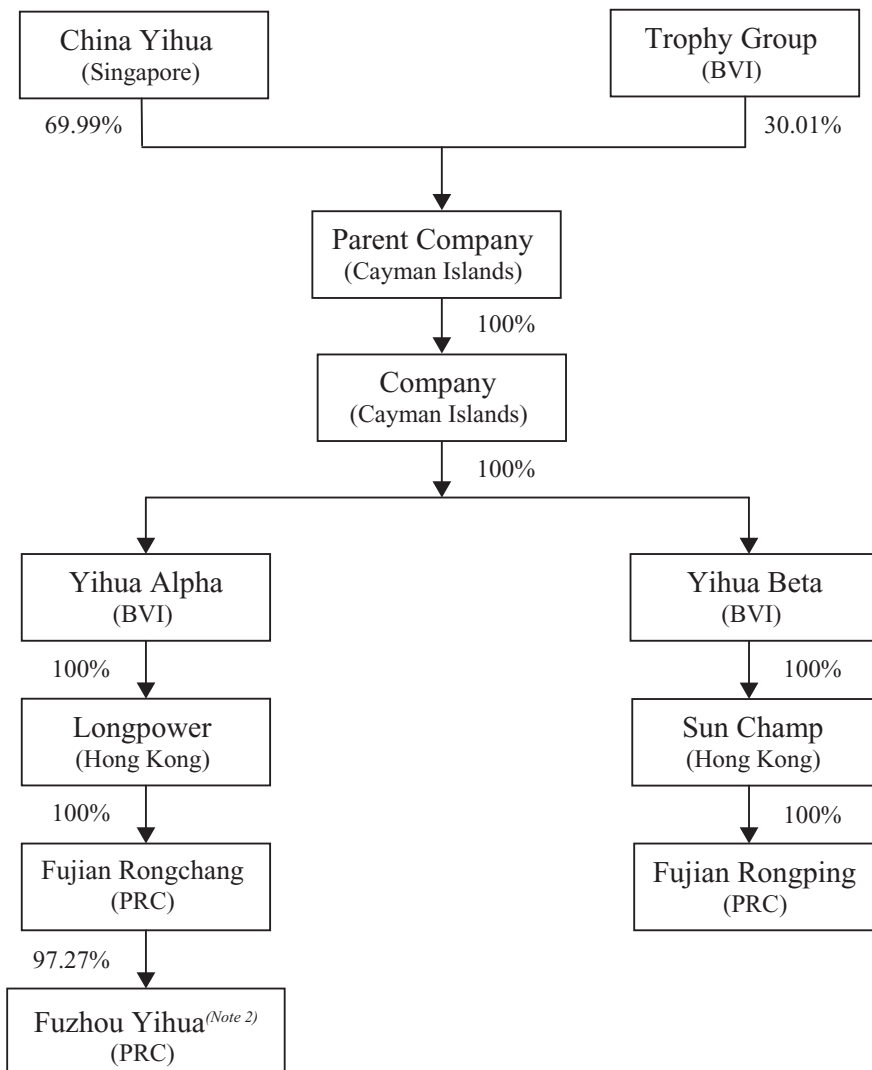
On April 7, 2011, Parent Company transferred to Yihua Alpha its entire interest in Longpower, at a consideration of RMB324,295,403, being the then net asset value of Longpower as shown in its management accounts immediately prior to the transfer, in settlement of which, our Company issued and allotted one Share to Parent Company. Upon completion of such transfer, there was an outstanding debt owed by Yihua Alpha to our Company in the same amount as the transfer consideration of Longpower.

On April 7, 2011, Parent Company transferred to Yihua Beta its entire interest in Sun Champ, at a consideration of RMB141,658,406, being the then net asset value of Sun Champ as shown in its management accounts immediately prior to the transfer, in settlement of which our Company issued and allotted one Share to Parent Company. Upon completion of such transfer, there was an outstanding debt owed by Yihua Beta to our Company in the same amount as the transfer consideration of Sun Champ.

On June 14, 2011, the Parent Company assigned all the outstanding loan due and payable by Longpower in the amount of US\$32,293,294.77 to our Company, in settlement of which, our Company issued and allotted one Share to Parent Company.

## HISTORY AND REORGANIZATION

Upon completion of the aforementioned transfers, the shareholding structure of our Group was as follows (*Note 1*):



Note 1. The direct interests in Parent Company set out in the diagram above represent approximate figures rounded to the nearest two decimal places.

Note 2. The remaining 2.73% equity interest in Fuzhou Yihua was held by Fujian Dajia Investments Co., Ltd., an Independent Third Party.

### **Incorporation of BVI Companies**

Each of Yihua Crown, Poly Gain and Yihua Fortune was incorporated in the BVI on January 19, 2011, November 8, 2007 and January 19, 2011, respectively, to act as the holding companies of the respective approximately 62.14%, 27.86% and 10.00% interest in Parent Company. Each of Yihua Crown, Poly Gain and Yihua Fortune was wholly owned by Mr. Liem, Ms. Chau Wai Man, who is a relative of Mr. Liem, and Mr. Lam Wai Wah, respectively. On June 14, 2011, China Yihua transferred by way of a gift its entire interest in Parent Company to each of these companies in proportion to the shareholding mentioned above. Yihua Crown, Poly Gain and Yihua Fortune were set up to facilitate the holding and management of the beneficial interests of the family members of Mr. Liem, who are the ultimate beneficiaries of such interests.

## HISTORY AND REORGANIZATION

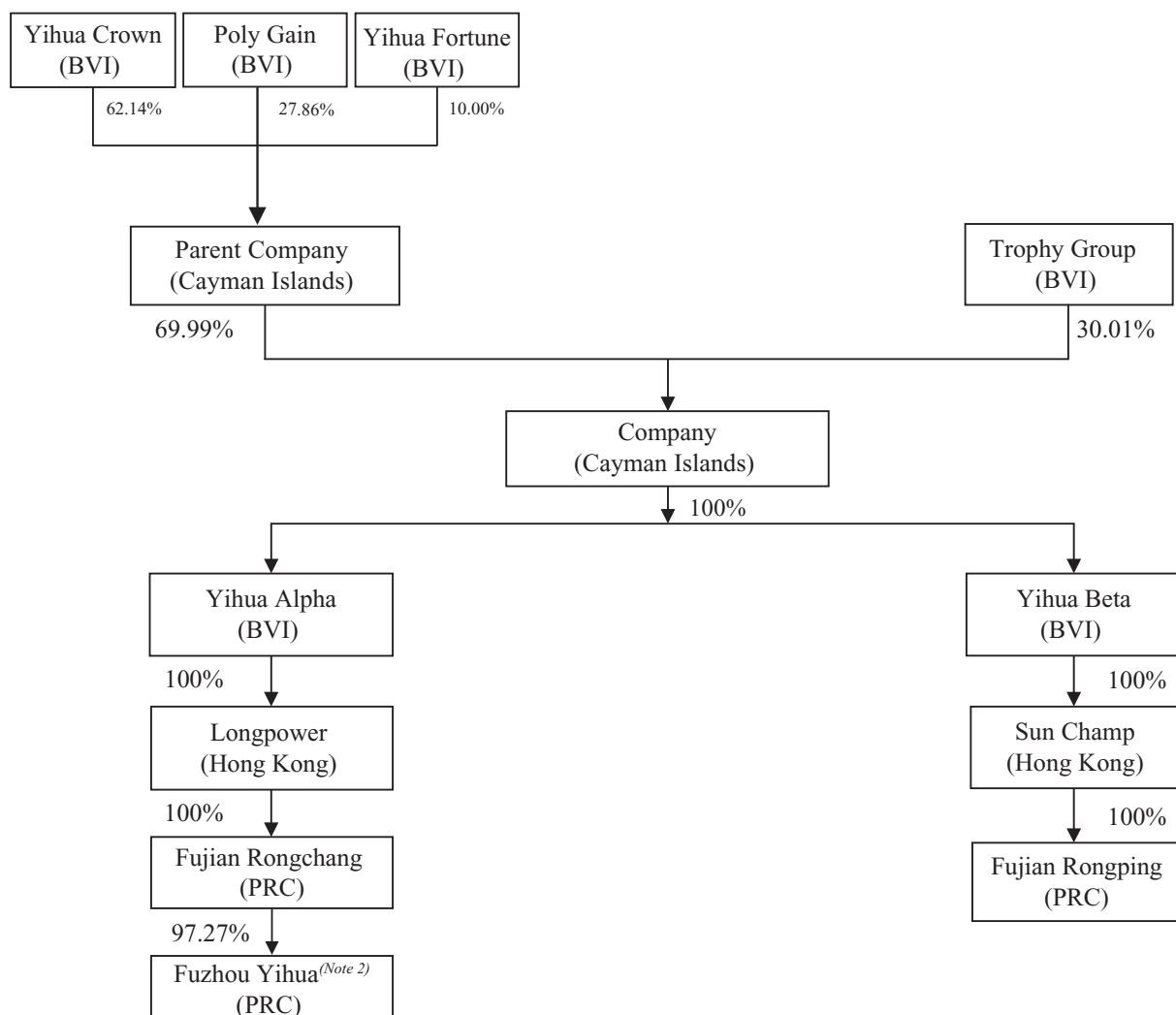
### Capitalization Issue

Conditional upon the share premium account of the Company being credited as a result of the Global Offering, the Directors would be authorized to capitalize the amount of HK\$59,999,996.60 from such account and applying such sum in paying up in full at par a total of 599,999,996 Shares for the allotment and issue to its then shareholders recorded on the register of members of the Company as of the day before the Listing Date on a pro rata basis.

### Exchange of Series A Shares and Parent Company Shares

Immediately prior to the Listing, Parent Company will repurchase 30,008,352 Series A Shares held by Trophy Group and, as consideration, Parent Company will transfer 180,050,112 Shares, representing approximately 30.01% of the issued share capital of our Company, to Trophy Group.

Immediately following the completion of our Reorganization and the Capitalization Issue, and before the Global Offering, the shareholding structure of our Group will be as follows (*Note 1*):

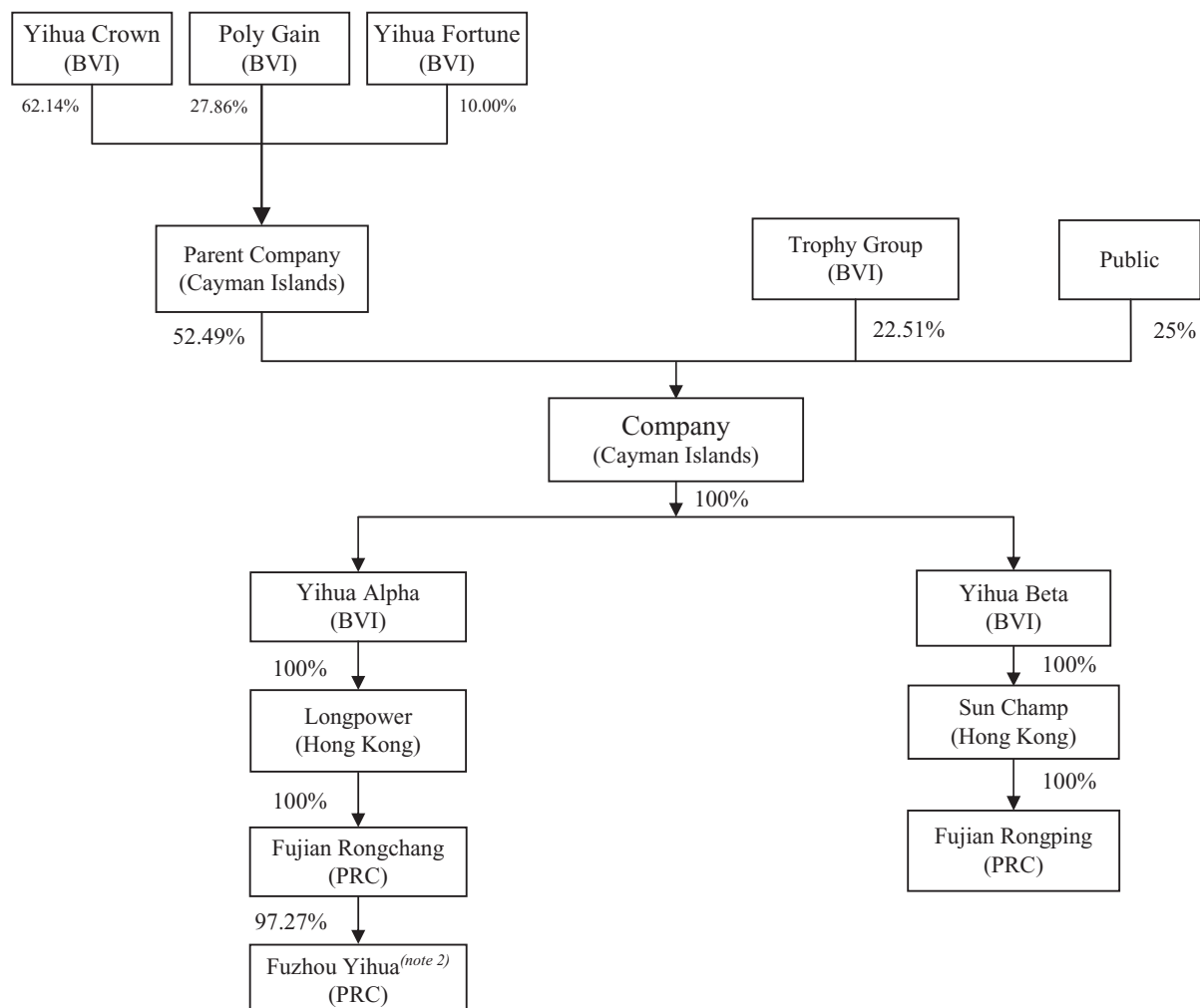


## HISTORY AND REORGANIZATION

Note 1. The direct and indirect interests in our Company set out in the diagram above represent approximate figures rounded to the nearest two decimal places.

Note 2. The remaining 2.73% equity interest in Fuzhou Yihua was held by Fujian Dajia Investments Co., Ltd., an Independent Third Party.

Immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised), the shareholding structure of our Group will be as follows (*Note 1*):



Note 1. The direct and indirect interests in our Company set out in the diagram above represent approximate figures rounded to the nearest two decimal places.

Note 2. The remaining 2.73% equity interest in Fuzhou Yihua was held by Fujian Dajia Investments Co., Ltd., an Independent Third Party.

### M&A Rules

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the State Administration for Industry and Commerce, the CSRC, and the SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者並購境內企業的規定》 (the “M&A Rules”), which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules require



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## HISTORY AND REORGANIZATION

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that offshore special purpose vehicles (“Offshore SPVs”) that are controlled by PRC companies or individuals and that have been formed for the purpose of seeking a public listing on an overseas stock exchange through acquisitions of PRC domestic companies or assets to obtain CSRC approval prior to publicly listing their securities on an overseas stock exchange.

Mr. Liem, our ultimate controlling shareholder, was born in Indonesia and obtained Indonesian nationality in 2001, and he has never held a PRC passport or ID card. As advised by our PRC legal adviser, the offshore holding companies in the Group set up by Mr. Liem shall not be deemed as Offshore SPVs under the M&A Rules and, thus, the CSRC approval shall not be required for this offering and our Reorganization.

### **Circular No. 75**

Pursuant to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Companies (《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》) promulgated on October 21, 2005 by the SAFE and implemented since November 1, 2005 and other related implemental rules (“Circular No. 75”), PRC individual residents and PRC corporate entities engaged in stock rights financing and roundtrip investment via overseas special purpose vehicles (“Overseas SPVs”) shall register with local branches of SAFE in connection with their direct or indirect offshore investment activities.

Mr. Liem, our ultimate controlling shareholder, was born in Indonesia and obtained Indonesian nationality in 2001, and he has never held a PRC passport or ID card. As advised by our PRC legal adviser, the offshore holding companies in the Group set up by Mr. Liem shall not be deemed as Overseas SPVs under Circular No. 75. Based on the advice of our PRC legal adviser, our Directors are of the view that Circular No. 75 shall not be applicable to our Group.