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### OVERVIEW

We are a leading specialty chemical provider based in China specializing in bleaching and disinfectant chemicals and ADC foaming agent. According to Frost & Sullivan, we were the second largest producer of sodium chlorate and third largest producer of ADC foaming agent in China in 2010 in terms of both revenue and sales volume. We were also among the top 10 producers of hydrogen peroxide in China in 2010 in terms of both revenue and sales volume. We were the largest exporter of sodium chlorate to Japan by market share as measured by sales volume in 2010. According to Frost & Sullivan, we were among the first producers in China to produce sodium chlorate, which is used by our downstream customers to produce chlorine dioxide for bleaching and disinfecting purposes, and we were the largest exporter of sodium chlorate in China in 2010 in terms of sales volume.

Headquartered in Fuzhou, our three major production facilities are strategically located in Fujian province, with convenient access to both major domestic industrial customers in eastern China and international customers overseas. Our products can be divided into three categories: bleaching and disinfectant chemicals (which primarily include sodium chlorate and hydrogen peroxide), ADC foaming agent, and other specialty chemicals (which primarily include potassium chlorate, sodium perchlorate, potassium perchlorate, caustic soda and biurea). We believe we are well positioned to benefit from the rapid economic growth of China, as our products constitute important inputs for many industries and have a wide range of applications across different fields, including pulp and paper bleaching, textile and fabric bleaching, water and wastewater treatment, electroplating cleaning, clinical disinfection, rubber and plastic resin manufacturing and building materials production. The use of sodium chlorate and hydrogen peroxide is critical for our customers to achieve “elemental chlorine free” (ECF) and “total chlorine free” (TCF) production processes, respectively, which are environmentally friendly alternatives to the traditional use of chlorine as a bleaching agent and disinfectant. The ECF production process uses chlorine dioxide while the TCF production process does not use any chlorine compounds. We expect the demand in China for specialty chemical products that enable ECF and TCF production processes for bleaching and disinfection by our downstream customers will continue to rise in light of the PRC government’s increasing focus on the implementation of environmental protection policies, and the performance of its duties and obligations under various international treaties, including, most notably, the Stockholm Convention on Persistent Organic Pollutants, which aims to eliminate or restrict the production and use of persistent organic pollutants.

Our strong research and development capability has enabled us to maintain our industry-leading position in key production technologies for the manufacture of bleaching and disinfectant chemicals, such as electrolysis and crystallization, which in turn contributes to our product quality. The high quality of our products is particularly demonstrated by our existing market share in Japan and sales to our Japanese customers, who we believe generally place very high requirements on the quality of sodium chlorate due to their strict production standards. Our leading market position in Japan also strengthens our ability to compete in the domestic market and enhances our ability to further expand into other international markets. In 2010, our export of sodium chlorate to Japan as a percentage of total sodium chlorate imported by Japan was 46.8%. We do not believe the recent earthquake and tsunami events in Japan will significantly affect our business operations. See “— Sales and Marketing — Sales — March 2011 earthquake in Japan.”

We have grown consistently over the Track Record Period in terms of both revenue and net profit. Our revenue increased from RMB700.1 million in 2008 to RMB1,211.8 million in 2010, representing a CAGR of 31.6%, and from RMB552.5 million for the six months ended June 30, 2010 to RMB715.3 million for the

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six months ended June 30, 2011. Our profit for the year increased from RMB77.2 million in 2008 to RMB170.7 million in 2010, representing a CAGR of 48.7%, and from RMB62.6 million for the six months ended June 30, 2010 to RMB133.3 million for the six months ended June 30, 2011. As of September 30, 2011, our total designed annual production capacity of sodium chlorate, hydrogen peroxide and ADC foaming agent was 75,000 tons, 200,000 tons and 15,000 tons, respectively.

### **OUR COMPETITIVE STRENGTHS**

We believe that we possess the following principal strengths enabling us to compete in the specialty chemical manufacturing industry in China as well as the rest of Asia:

#### **A leading specialty chemical provider based in China**

According to Frost & Sullivan, we were the second largest producer of sodium chlorate and third largest producer of ADC foaming agent in China in 2010, in terms of both revenue and sales volume. We were also among the top 10 producers of hydrogen peroxide in China in 2010 in terms of both revenue and sales volume. Our five decades of operating history and high quality chemical products have firmly established our Company within the PRC specialty chemical market and allowed us to compete effectively with both domestic and international chemical manufacturers. Our large production capacity and variety of specialty chemical products enable us to achieve significant economies of scale and enjoy better bargaining power with respect to our customers and suppliers. We believe potential market entrants will encounter significant hurdles when entering our industry. These barriers include high initial start-up costs, significant investment requirements in improving production facilities and stringent government regulation regarding chemical manufacturing.

Capitalizing on our strong market position in China, we have also expanded into international markets in recent years, including most notably Japan. Our market share as measured by sales volume has increased rapidly over the past years. According to Frost & Sullivan, we were the largest exporter of sodium chlorate to Japan by market share as measured by sales volume in 2010. We believe that Japanese customers demand the highest quality sodium chlorate due to their strict production standards. Our existing market share in Japan therefore enhanced our Company's image among both existing and potential customers. In relation to the effect on our business operations of the earthquake and tsunami in northeastern Japan that occurred on March 11, 2011, see "Business — Sales and Marketing — Sales — March 2011 earthquake in Japan."

#### **Advanced technical and production expertise**

According to Frost & Sullivan, we were one of the earliest producers in the PRC to adopt advanced production techniques in our industry and the technology we use is one of the most advanced currently available. We believe our technical expertise has resulted in a more reliable production process that allows us to meet higher standards of product quality, thereby commanding higher premiums.

We were among the first sodium chlorate producers in China, according to Frost & Sullivan. We were also one of the earliest producers in China to produce sodium chlorate that is used in the production of chlorine dioxide for bleaching and disinfection, an environmentally friendly process which is "elemental chlorine free," or ECF. Known as the "A1 class" as classified by the World Health Organization ("WHO"),

chlorine dioxide is an environmentally friendly alternative to the traditional use of chlorine as a bleaching agent, as it does not use elemental chlorine gas and prevents the formation of dioxins and dioxin-like compounds, which are toxic.

According to Frost & Sullivan, we are at the technological forefront in China of electrolysis and crystallization, which are the key production technologies for the manufacturing of bleaching and disinfectant chemicals. Over the past 10 years, we have been able to continuously upgrade and improve our electrolysis equipment, originally purchased from international manufacturers, to adapt to the specific characteristics of raw materials and production conditions available in China, and achieve lower consumption of utilities and production costs. Specifically, our improved electrolysis cell is adaptable to high voltage production, more effective in controlling the electrolysis process and improves the purity of gas released, thereby enhancing the efficiency of the electrolysis process. The older generation of such electrolysis equipment is widely used by other Chinese sodium chlorate producers. In contrast, we have developed proprietary electrolysis technology through the efforts of our research and development team. We have therefore been able to maintain our leading position in the research and development as well as commercial production of such technology. Our advanced crystallization technology was acquired in 1998 from an international crystallization equipment designer and has since been improved and upgraded as a result of our own research and development efforts. Our improved crystallization technology enables us to produce sodium in finer and purer particles at a higher quality, which are more easily transported, stored and used.

As of the Latest Practicable Date, we had a strong research and development team with 148 full-time personnel, including four management personnel, six senior engineers, 22 engineers, 30 junior or assistant engineers, 29 technicians and 57 quality controllers and analysts. Our research and development team members are integrated within our management, production and sales divisions and coordinate with one another to conduct relevant research and development work in response to customer requests. In addition, Fujian Rongping, one of our three operating subsidiaries, has been awarded the ISO14001:2004 Certificate in 2008 for its environmental management system. We are also in the process of obtaining ISO14001:2004 Certificates for our other two operating subsidiaries.

### **A strong domestic and international customer base with long-term collaborative relationships**

We have established a strong customer base and have developed collaborative relationships with our major customers. We have had relationships with our major customers for more than 10 years on average. Although our products typically constitute an insignificant portion of the total production costs for our customers, as a major additive during the production process, these products can directly affect the quality and viability of the end products of our customers. As a result, product quality is more important than competitive pricing to our customers. We invite representatives of many of our customers to visit our plants on a regular basis to work with us to understand and suggest improvements to our product quality. Our customer services and sales team, which comprise directors and senior management, work closely and proactively with our production team with respect to delivering product quality and specification. We believe our strong relationship with our customers is difficult to replicate and helps us win the loyalty of and maintain a longer term relationship with our customers. Our customers' willingness to work with us and commitment to time and resources reflect, we believe, our proven track record of producing high quality products that meet international standards and requirements.

**Strategically located production facilities ensuring convenient access to customers and hydroelectric power sources**

Our production facilities are strategically located across Fujian Province to access major Chinese paper and textile customers in southeastern China by land and sea. Such geographical proximity enables us to capture the significant economic growth of the east coast of China. Additionally, our production facilities have convenient access to port facilities for export of our products to customers in the rest of Asia, particularly Japan. We ship most of our products directly to the ports of our Japanese customers via flexible shipping arrangements and schedule. As a result, we are able to deliver our products to our Japanese customers faster and at lower costs compared to many of our international competitors located in Europe or North America.

All three of our production facilities are located in close proximity to hydroelectric power sources, which represents another advantage we believe to be unique among specialty chemical producers in China. We own and operate a hydroelectric power plant at Fuzhou Yihua which provides hydroelectricity exclusively for our operations at Fuzhou Yihua. Our other two production facilities have also secured electricity supply at lower costs by entering into supply agreements with nearby privately owned hydroelectric power plants and local authorities or securing preferential electricity prices granted by the local government. As a result, we have been and expect to continue to be able to benefit from a lower cost of electricity as compared to many of our competitors who rely principally on coal-fired power supply.

**Well positioned to benefit from industry trends and increasing demand for environmentally friendly products**

The rapid growth of China's economy has resulted in both a rise in consumer spending and an acceleration of industrialization. Such rapid growth has led to a growth of our downstream industries, such as pulp and paper, textile, automobile and construction and, consequently, the specialty chemicals we produce. For example, according to Frost & Sullivan, the total market size for sodium chlorate in the PRC increased significantly from approximately RMB341 million in 2005 to approximately RMB1,229 million in 2010, representing a CAGR of 29.2%, and is expected to further increase at a CAGR of 22.3% from 2010 to 2015. We believe we are well positioned to capture the opportunities such industry trends have presented due to our leading position in the specialty chemical industry in China. In addition, the PRC chemical industry has experienced a wave of consolidation, which we believe will benefit industry leaders such as ourselves that have the financial resources and management acumen to acquire and effectively manage potential acquisition targets.

We believe the demand for our products will further increase in light of the increasing focus on the implementation of environmental protection policies by the PRC government. For example, in April 2007, the PRC government announced the National Implementation Plan as part of its duties and obligations under the Stockholm Convention on Persistent Organic Pollutants. The Stockholm Convention on Persistent Organic Pollutants advocates the control, reduction and elimination of the use of certain organic pollutants. According to the National Implementation Plan, China has committed to investing RMB34 billion to control, reduce and eventually eliminate the use of 12 different types of persistent organic pollutants across the country. The National Implementation Plan has set specific targets and standards for ECF compliance that both old and newly established companies must meet, or upgrade their production facilities to meet, within the designated periods. These requirements affect our downstream manufacturing customers because they need to make use of sodium chlorate and hydrogen peroxide in their production processes in order to

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reduce and eliminate emission of chlorine-related pollutants. These requirements do not apply to us and have no direct effect on our operations, products or production process, except insofar that they create demand from our downstream customers for our sodium chlorate and hydrogen peroxide products. We intend to expand our production capacity to capture the increase in demand for our products resulting from the implementation of the National Implementation Plan by the PRC government. See “Business — Expansion Plans.”

### **Experienced management team with a proven track record**

Our management team is comprised of knowledgeable and experienced industry experts with a proven track record in specialty chemical industry management. Our senior management members have an average of over 20 years of specialty chemical industry experience. Our plants are staffed by senior engineers and technicians with significant skills and experience in operating specialty chemical production facilities. Mr. Chen Hong, our chief executive officer, is the vice president of the China Inorganic Salt Industry Association and the president of its Chlorate Salt Sub-Division, and enjoys wide recognition throughout the industry. We believe our experienced management team has been a key to our success in the past and will continue to contribute to our future growth.

### **OUR BUSINESS STRATEGIES**

We aim to maintain and further strengthen our position as a leading specialty chemical provider based in China and to expand our business both domestically and internationally by pursuing the following strategies:

#### **Further strengthen our leading market position by increasing production capacity**

We intend to further strengthen our leading market position by increasing production capacity. We intend to expand our production capacity by building more production facilities and expanding the production lines at our existing facilities. We plan to further expand our designed annual production capacity of our major products, including sodium chlorate, hydrogen peroxide, ADC foaming agent and caustic soda. See “— Expansion Plans.” We expect to fund the capital expenditure requirements in connection with such increase of production capacity through funds generated from our operations, bank borrowings and the proceeds of the Global Offering. See “Future Plans and Use of Proceeds.”

#### **Selectively seek acquisition opportunities and expand our market presence**

We intend to expand our market presence and reach new customers by prudently exploring opportunities both domestically and internationally. We believe our management and production techniques can be replicated to improve and integrate acquired production facilities, thereby increasing our market share and further strengthening our economies of scale. We also seek to enhance our leading position in Japan and expand into other international markets.

We will proactively identify and evaluate potential acquisition targets. We have started the target selection process and are currently at the preliminary discussion stage with several potential target companies, although we have not entered into any definitive agreements or letters of intent. We intend to use a portion of the net proceeds of the Global Offering to acquire suitable companies or businesses in the

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production of specialty chemicals. See the section headed “Future Plans and Use of Proceeds — Use of Proceeds.”

### **Optimize our product mix**

We intend to respond to consumer and market changes by optimizing our product mix. We have stopped producing PVC products, which have lower gross margins, and intend to place stronger emphasis on products that have higher gross margins and growth potential, such as bleaching and disinfectant chemicals and modified or specialized ADC foaming agent. We intend to increase the sales of bleaching and disinfectant chemicals to both domestic and international customers by enhancing sales and marketing efforts. Since 2009, we have primarily outsourced the production of basic ADC foaming agent to third party producers, which affected the growth of our overall gross margin. Going forward, we intend to produce modified or specialized ADC foaming agent internally at lower costs but with higher quality and more customized functionality in order to achieve higher profit margins.

In addition, in order to capture opportunities in downstream industries, we also intend to evaluate the production of other specialty chemical products that are currently not part of our product mix. We believe we can capitalize on our established strength and reputation in our existing core products to broaden our product mix, which can also help us diversify our sources of revenue. Expansion into the production of new products may involve alteration of our existing production facilities and development or acquisition of new production facilities. Further, we are also considering and actively seeking opportunities to diversify our product mix to include products, such as related by-products of our operations or those that make use of our by-products in their production, the production or sales of which would benefit from synergies with our current operations. Although we have started the project evaluation process, we have not identified any specific new product type.

### **Improve production efficiency and increase economies of scale**

We intend to improve the efficiency of our production facilities by periodically re-assessing our management techniques and production processes for areas of improvement, as well as by implementing new technologies when economically feasible. We also intend to reduce production costs by continually keeping abreast of the latest market developments and seek new, more cost-effective sources and models. We aim to further reduce production costs per unit through economies of scale by increasing production capacity. We will continue to invest in research and development and upgrade our production facilities.

### **Continue to retain and attract talented personnel**

We believe that the successful implementation of our business and growth strategies depends on our ability to attract and retain experienced, motivated and well-trained employees at all levels. We plan to attract, retain and develop talented and capable individuals in the specialty chemical industry by providing competitive remuneration packages and extensive and targeted training programs to our employees. In addition, we focus on creating an enjoyable working environment by promoting a corporate culture of diligence, integrity and open communication among our management and employees. As a leader in the specialty chemical industry in the PRC, we believe we can attract exceptional candidates with expertise in the industry. We will continue to offer our employees a range of incentives tied to our company’s performance, including bonuses and entitlement to participate in our Pre-IPO Share Option Scheme and Share Option Scheme to encourage loyalty among our employees and help align the interests of our employees with those of our Shareholders.

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### PRODUCTS

Our principal products include bleaching and disinfectant chemicals and ADC foaming agent. In addition, we also produce other specialty chemicals, such as potassium chlorate, sodium perchlorate, potassium perchlorate, biurea, caustic soda, PVC (we ceased production of PVC in May 2010) and others. The following table sets out our revenue for the periods indicated by product groups:

	For the year ended December 31,						For the six months ended June 30,			
	2008		2009		2010		2010		2011	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	(unaudited)			
(RMB in thousands, except percentages)										
Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	
Bleaching and disinfectant chemicals . . . . .	340,927	48.7%	409,103	40.6%	417,120	34.4%	179,183	32.4%	269,051	37.6%
ADC foaming agent . . . . .	123,161	17.6%	343,207	34.1%	586,139	48.4%	270,696	49.0%	329,333	46.0%
Other specialty chemicals . . . . .	235,967	33.7%	254,192	25.3%	208,567	17.2%	102,586	18.6%	116,932	16.4%
Total . . . . .	<u>700,055</u>	<u>100%</u>	<u>1,006,502</u>	<u>100%</u>	<u>1,211,826</u>	<u>100%</u>	<u>552,465</u>	<u>100%</u>	<u>715,316</u>	<u>100%</u>

### Bleaching and disinfectant chemicals

Our bleaching and disinfectant chemicals consist primarily of sodium chlorate and hydrogen peroxide. We also sold a small amount of chlorine and sodium hypochlorite, which in aggregate constituted approximately 2.9% of our total revenue in the six months ended June 30, 2011. Sodium chlorate and hydrogen peroxide are the major bleaching and disinfectant chemicals applied in the pulp and paper, textile, water and waste water treatment and other industries that use ECF and TCF techniques. Sodium chlorate is used in ECF bleaching while hydrogen peroxide is used in TCF bleaching of pulp. ECF bleaching is a technique that uses chlorine dioxide for bleaching pulp. It does not use elemental chlorine during the bleaching process and prevents the formation of toxic dioxins. TCF bleaching, on the other hand, does not use any chlorine compounds for pulp bleaching and, similarly, does not release toxic dioxins.

#### *Sodium chlorate*

Sodium chlorate (NaClO<sub>3</sub>) is a chemical primarily used to produce chlorine dioxide (ClO<sub>2</sub>), a strong oxidizing agent. In its pure form, sodium chlorate is a white crystalline powder that is readily soluble in water. Sodium chlorate is produced from the electrolysis of a hot sodium chloride solution in a mixed electrode cell. The chemical reaction when chlorine gas is passed through a hot sodium hydroxide solution, and then purified by crystallization produces sodium chlorate. See “— Production Process — Sodium chlorate.” The by-product of hydrogen gas during this process is treated and stored to be used for the production of hydrogen peroxide.

Sodium chlorate is primarily used in the pulp and paper industry. It is used for on-site generation of chlorine dioxide for chemical pulp bleaching. Chemical pulp bleaching is a process in which wood pulp is bleached to whiten or brighten the pulp prior to being manufactured into paper. The process of using chlorine dioxide for pulp bleaching is an environmentally friendlier alternative to the traditional use of chlorine as a bleaching agent. This ECF bleaching process does not use elemental chlorine gas and, as a result, prevents the formation of dioxins and dioxin-like compounds which are toxic environmental

pollutants. The same oxidative mechanism responsible for sodium chlorate's bleaching ability also makes it effective in destroying microbes. Therefore, sodium chlorate is also used as a disinfectant in water and wastewater treatment and in the food and beverage industry. Chlorine dioxide is recognized as the fourth generation antibacterial agent and has been classified by the WHO as a safe and efficient A1 class of disinfectant.

During the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, revenue derived from our sales of sodium chlorate amounted to approximately RMB209.2 million, RMB267.8 million, RMB262.3 million and RMB136.9 million, respectively, representing approximately 29.9%, 26.6%, 21.6% and 19.1% of our total revenue for the respective periods. Our production of sodium chlorate during the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011 was approximately 56,312 tons, 68,525 tons, 76,646 tons and 37,477 tons, respectively. As of September 30, 2011, our aggregate designed annual production capacity of sodium chlorate was approximately 75,000 tons.

### ***Hydrogen peroxide***

Hydrogen peroxide (H<sub>2</sub>O<sub>2</sub>) is a weak acid with strong oxidizing properties. Hydrogen peroxide is a pale blue liquid which has a slightly higher viscosity than water and appears colorless in a dilute solution. It is produced through the reaction between hydrogen and oxygen and involves a continuous process of sequential hydrogenation, oxygenation, extraction and purification. See “— Production Process — Hydrogen peroxide.” Hydrogen gas used during the hydrogenation process is a by-product from our production of sodium chlorate and caustic soda, while oxygen gas used during the oxygenation process is atmospheric oxygen.

Hydrogen peroxide has a wide range of applications across numerous different fields. It is used as a bleaching agent in the pulp and paper industry for mechanical pulp bleaching. Unlike the use of chlorine dioxide in chemical pulp bleaching, mechanical pulp bleaching retains most of the lignin present in the wood pulp. The process of using hydrogen peroxide for pulp bleaching is a TCF process, which is environmentally friendly as it does not involve the use of chlorine compounds. The strong oxidizing capacity of hydrogen peroxide also makes it a versatile chemical utilized across different fields of application. Other than pulp and paper bleaching, hydrogen peroxide is also used as a bleaching agent in the textile and fabric industry. It is used in ballast water and wastewater treatment to oxidize certain pollutants and destroy microbes. It may also be used to sanitize drinking water, in replacement of chlorine. Hydrogen peroxide is also used as a disinfectant in the food and pharmaceutical industries and in electroplating cleaning.

During the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, revenue derived from our sales of hydrogen peroxide amounted to approximately RMB109.0 million, RMB117.4 million, RMB124.0 million and RMB111.2 million, respectively, representing approximately 15.6%, 11.7%, 10.2% and 15.5% of our total revenue for the respective periods. Our production of hydrogen peroxide during the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011 was approximately 78,879 tons, 98,516 tons, 107,509 tons and 90,365 tons, respectively. As of September 30, 2011, our aggregate designed annual production capacity of hydrogen peroxide was approximately 200,000 tons.

### ***Chlorine***

Chlorine is an important chemical with strong oxidizing properties and has a wide range of applications. It is used in water purification and the production of other industrial and consumer products,



such as plastics, solvents, textiles, pharmaceuticals, insecticides, dyestuffs, cleaning products and other chemicals. Because of its toxicity, it is not often used directly but rather in another form of compound, such as sodium hypochlorite.

At room temperature and normal atmospheric pressure, chlorine is a yellow-green gas with a strong, distinctive smell of bleach. It is a by-product from our production of caustic soda through the chlor-alkali process.

### ***Sodium hypochlorite***

Sodium hypochlorite (NaOCl), the solution form commonly known as bleach, is often used as a disinfectant or a bleaching agent. It is a by-product from our production of caustic soda through the chlor-alkali process.

### **ADC foaming agent**

ADC foaming agent (C<sub>2</sub>H<sub>4</sub>O<sub>2</sub>N<sub>4</sub>) is a surfactant which can ease the formation of foam from a small amount of liquid, or enhance its colloidal stability by inhibiting the coalescence of bubbles. It is an efficient general purpose chemical blowing agent for a wide variety of polymers in the production of expanded products. It is a synthetic chemical which usually presents itself as a light yellow powder. Different grades are available in a range of particle sizes. We produce and sell both a basic grade and modified grades of ADC foaming agent. Modified grades of ADC foaming agent are of finer particle sizes which enables smoother utilization by downstream industries to produce higher quality end products, and hence commands a higher margin than the basic grade. We are also capable of producing specialized grades of ADC foaming agent depending on customer specifications. ADC foaming agent is produced from reacting biurea with chlorine gas. See “— Production Process — ADC foaming agent.” We produce our own biurea for use in this process. Chlorine gas used in this process is a by-product from our production of caustic soda.

ADC foaming agent is primarily used in the production of foamed plastics as an additive. Its thermal decomposition results in the production of nitrogen, carbon monoxide, carbon dioxide, and ammonia gases, which are trapped in the polymer as bubbles to form a foamed article. It is used in rubber manufacturing and plastic resin manufacturing. ADC foaming agent is widely used in the footwear industry to produce slippers, soles and insoles, in the building materials industry as a calcium plastic foaming agent, in the making of ceiling and floor leather because of its stable and non-flammable characteristics, in automobile upholstery and in the furniture and home decoration materials industry. ADC foaming agent’s various characteristics makes it a versatile ingredient in a wide range of applications in other industries. These characteristics include, among others, a wide processing temperature range of 160° to 230°C, minimal odor and coloring on the finished product, and being completely free-flowing and dispersible, eliminating problems with dispersion during usage.

In 2009, we began substantially outsourcing the production of basic grade ADC foaming agent to meet demand for the product. The framework outsourcing agreements that we enter into with independent third party suppliers are based on arm’s length negotiations, which specify that the ADC foaming agent supplied must meet our required technical and quality standards. These agreements are typically of one year in duration and the price of the ADC foaming agent is determined one month in advance of sales with reference to the prevailing market price at the time of determination. These independent third party

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suppliers are professional chemical manufacturers and vendors, with which we have a business relationship of an average of approximately three years. Under our contracts with our customers, we do not bear liability for production related issues with ADC foaming agent that are sourced from these independent third party suppliers. We are normally given a credit term of 30 days for these supplies. During the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, the production outsourcing cost of ADC foaming agent was RMB4.8 million, RMB177.7 million, RMB320.8 million and RMB168.5 million, respectively, representing 1.0%, 24.3%, 36.0% and 34.6% of our cost of sales for the same periods, respectively.

During the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, revenue derived from our sales of ADC foaming agent amounted to approximately RMB123.2 million, RMB343.2 million, RMB586.1 million and RMB329.3 million, respectively, representing approximately 17.6%, 34.1%, 48.4% and 46.0% of our total revenue for the respective periods. Our production of ADC foaming agent during the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011 was approximately 8,549 tons, 11,692 tons, 14,762 tons 7,671 tons, respectively. As of September 30, 2011, our aggregate designed annual production capacity of ADC foaming agent was approximately 15,000 tons.

### **Other specialty chemicals**

Our other specialty chemicals consist of primarily potassium chlorate, sodium perchlorate, potassium perchlorate, PVC (we ceased production of PVC in May 2010), caustic soda, and biurea. We also produce a small amount of hydrochloric acid and sodium carbonate decahydrate.

#### ***Potassium chlorate***

Potassium chlorate ( $KClO_3$ ) is a chemical with strong oxidizing properties and is used in weedkillers and disinfectants and, because of its ability to produce oxygen, is used in explosives, pyrotechnics, and matches. It is also used as a plant hormone that regulates plant growth.

In its pure form, potassium chlorate is a white crystalline substance that is readily soluble in water. Potassium chlorate is produced from reacting potassium chloride in a double decomposition reaction.

Sale of potassium chlorate is strictly regulated by PRC regulations, see “Regulations — Regulations on Hazardous Chemicals — Measures relating to Distribution of Potassium Chlorate.”

#### ***Sodium perchlorate***

Sodium perchlorate ( $NaClO_4$ ) is a perchlorate salt with strong propellant properties. It is largely used in jet fuel and as a propellant in rocket boosters. It is also used as a base compound to produce other perchlorate salts, such as potassium perchlorate.

Sodium perchlorate are white crystalline, hygroscopic solids that are highly soluble in water and alcohol. It is produced from the electrolysis of sodium chlorate solution. We produce our own sodium chlorate for use in preparing the sodium chlorate solution.

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### *Potassium perchlorate*

Potassium perchlorate ( $\text{KClO}_4$ ) is a perchlorate salt with strong propellant properties. It is a strong oxidizer and can potentially react with many organic substances. It is commonly used in fireworks and other pyrotechnic applications.

Potassium perchlorate are usually colorless, crystalline solids. It is produced from the double decomposition reaction between sodium perchlorate and potassium chloride. We produce our own sodium perchlorate for use in the double decomposition reaction process.

### *PVC*

PVC, also known as polyvinyl chloride, is a thermoplastic polymer. It is one of the most widely produced plastics and is often used in construction because it is inexpensive, durable and easy to assemble. Its softness and flexibility can be increased by adding plasticizers, which can then be used in clothing and upholstery and other applications. Due to strong competition, our relatively small-scale production of PVC and lowering margins as a result of increasing raw material costs, we gradually decreased the production of PVC products over the Track Record Period and ceased production of PVC products in May 2010.

The production of PVC in the PRC is subject to the foreign investment restrictions under the Catalog for the Guidance of Foreign Investment Industries, see “Regulations — Overview of Regulatory Framework.” Originally, under Catalog 2004, the production of PVC fell under the “permitted” category for foreign investment. However, under Catalog 2007, the production of PVC using the calcium carbide method was re-classified as a “restricted” category. Fujian Rongchang had historically used the calcium carbide method to produce PVC. When Mr. Liem entered into entrustment agreements in 2005 with the relevant nominees to hold his equity interests in Fujian Rongchang (see “History and Reorganization — Entrustment Arrangements”), Fujian Rongchang was in compliance with Catalog 2004. As advised by our PRC legal adviser, Zhong Lun Law Firm, because Fujian Rongchang’s production of PVC using the calcium carbide method was compliant with Catalog 2004, it would not be rendered non-compliant under Catalog 2007 as a result of its promulgation and, as such, no legal or economic penalties would be imposed retrospectively on Fujian Rongchang for any non-compliance with Catalog 2007. Further, on May 23, 2008, Fujian Rongchang, as a foreign invested enterprise, obtained the due approval of the Fujian Provincial Department of Foreign Trade and Economic Cooperation for the production of PVC. On June 10, 2008 and June 30, 2008, Fujian Rongchang obtained the foreign investment certificates from the Fujian Provincial People’s Government and the business license from the Fujian Provincial Administration of Industry and Commerce, respectively. The production of PVC is included in the business scope of Fujian Rongchang and, therefore, its production of PVC complies with the Catalog for the Guidance of the Foreign Investment Industries.

During the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, revenue derived from our sales of PVC amounted to approximately RMB48.3 million, RMB41.4 million, RMB14.0 million and nil, respectively.

### *Caustic soda*

Caustic soda, also known as sodium hydroxide ( $\text{NaOH}$ ), is a versatile chemical alkali used in a diverse range of manufacturing processes, including as a strong chemical base in the manufacture of pulp and paper, as well as in a wide range of other industrial uses. We also use caustic soda internally to further produce biurea and ADC foaming agent.

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In its pure form, caustic soda presents itself as a white solid available in pellets, flakes and granules. We produce caustic soda through the chlor-alkali process, under which chlorine gas and hydrogen gas are also formed. These by-products are treated and stored to be used for the production of further downstream products, namely hydrogen peroxide, ADC foaming agent and biurea.

The production of caustic soda in the PRC is subject to the foreign investment restrictions under the Catalog for the Guidance of Foreign Investment Industries, see “Regulations — Overview of Regulatory Framework.” Accordingly, on August 20, 2007, Fujian Rongchang duly filed, as a domestic enterprise at the time, with the relevant authorities, for the “Shunchang Rongchang Ion Membrane Caustic Soda Technology Improvement Project,” which was our expansion project for Fujian Rongchang. See “Business — Expansion Plans.” On May 23, 2008, Fujian Rongchang, as a foreign invested enterprise, obtained the due approval of the Fujian Provincial Department of Foreign Trade and Economic Cooperation for the production of caustic soda. On June 10, 2008 and June 30, 2008, Fujian Rongchang obtained the foreign investment certificates from the Fujian Provincial People’s Government and the business license from the Fujian Provincial Administration of Industry and Commerce, respectively. The production of caustic soda is included in the business scope of Fujian Rongchang and, therefore, its production of caustic soda complies with the Catalog for the Guidance of the Foreign Investment Industries. However, we have been advised by our PRC legal adviser, Zhong Lun Law Firm, that there is uncertainty as to compliance with the Catalog for the Guidance of Foreign Investment Industries during the period from August 20, 2007 to May 23, 2008. For further information, see “Risk Factors — Risks Relating to Our Business — We may not have been in full compliance with the Catalog for the Guidance of Foreign Investment Industries in the past.” The construction of the expansion project at Fujian Rongchang was completed in November 2010, and its total production capacity of caustic soda was increased to 80,000 tons per year.

During the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, revenue derived from our sales of caustic soda amounted to approximately RMB34.6 million, RMB40.1 million, RMB38.9 million and RMB33.1 million, respectively.

### *Biurea*

Biurea ( $C_2H_6N_4O_2$ ) is a base chemical used for the production of other industrial products. We produce biurea for sale as well as for our further production of ADC foaming agent. Other uses of biurea include the production of fire retardant agents and anti-slip agents.

Biurea is a white or light-brown powder that is insoluble in water. The production process of biurea involves several steps. Firstly, sodium hypochlorite is formed by reacting caustic soda with chlorine gas. Secondly, sodium hypochlorite is reacted with a urea solution and caustic soda to form hydrazine. Lastly, the hydrazine in liquid form is reacted further with sulfuric acid and urea to form biurea. We use caustic soda from our own production to produce biurea while chlorine gas used in this process is also a by-product from our production of caustic soda.

### *Others*

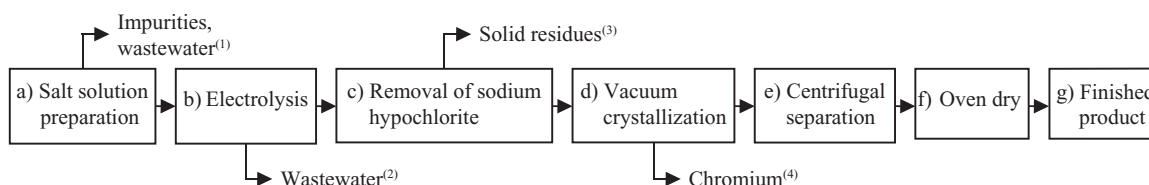
We also produce a small amount of certain other chemicals and products, including hydrochloric acid and sodium carbonate decahydrate.

**PRODUCTION PROCESS**

The following is a description of the production process of our principal products: sodium chlorate, hydrogen peroxide and ADC foaming agent:

**Sodium Chlorate**

The following flowchart provides an overview of the processes involved in sodium chlorate production and the main discharges released:



Notes:

- (1) Impurities include  $Mg(OH)_2$  and  $CaCO_3$ . Wastewater contains minute traces of  $Mg(OH)_2$  and  $CaCO_3$  as suspended solids.
- (2) Contains alkaline wastewater.
- (3) Contains mechanical residues.
- (4) Minute traces of chromium are formed in the cooling water.
- (5) Sewage from the sodium chlorate production process contains ammonia.

*a) Salt solution preparation*

Solid rock salt ( $NaCl$ ) is poured into a tank to be dissolved with water to form a salt solution. The salt solution is refined through filtration to remove impurities. During this process, impurities such as magnesium hydroxide ( $Mg(OH)_2$ ) and calcium carbonate ( $CaCO_3$ ) are formed, which are then pressure-filtered and washed, before they are mixed with cinder from boilers to produce briquettes for cement and fertilizer factories. Wastewater is collected for treatment in our wastewater treatment facilities before discharge.

*b) Electrolysis*

The refined salt solution is channeled into an electrolysis cell to undergo the electrolysis process. Under appropriate voltage, the refined salt solution in the electrolysis cell undergoes an electrochemical reaction and produces hydrogen gas and a sodium chlorate solution. Hydrogen gas produced through this electrolysis process is up to 97.5% pure. It is treated and stored to be used for the production of hydrogen peroxide in a separate production line. During this process, alkaline wastewater is collected for treatment in our wastewater treatment facilities before discharge.

*c) Removal of sodium hypochlorite*

Sodium hypochlorite occurs as an intermediate substance during the electrolysis process. It is corrosive and may damage our crystallization equipment and centrifugal separator as we process the sodium chlorate solution further. Hence, it must be removed from the sodium chlorate solution. After the process of removal of sodium hypochlorite, the salt solution is filtered, and mechanical residues are pressure-filtered, washed and stored in designated storage tanks. The solidified residue is delivered to provincial solid waste treatment centers for further handling or disposed of in our designated landfill sites. See “— Environmental Protection — Overview.” Water used in washing is reused.

*d) Vacuum crystallization*

The sodium chlorate solution is channeled into the vacuum crystallizer to form sodium chlorate crystals. It first undergoes vacuum dehydration before the temperature of the solution is reduced, causing the formation of sodium chlorate crystals in the solution. The solution with crystals is then heated with steam to accelerate growth of the sodium chlorate crystals. Minute traces of chromium is formed in the cooling water used during the crystallization process.

*e) Centrifugal separation*

Once a suitable amount of sodium chlorate crystals has formed in the sodium chlorate solution, the mixture will undergo centrifugal separation to separate the sodium chlorate crystals from the solution. At the end of this process, wet sodium chlorate crystals are collected.

*f) Oven dry*

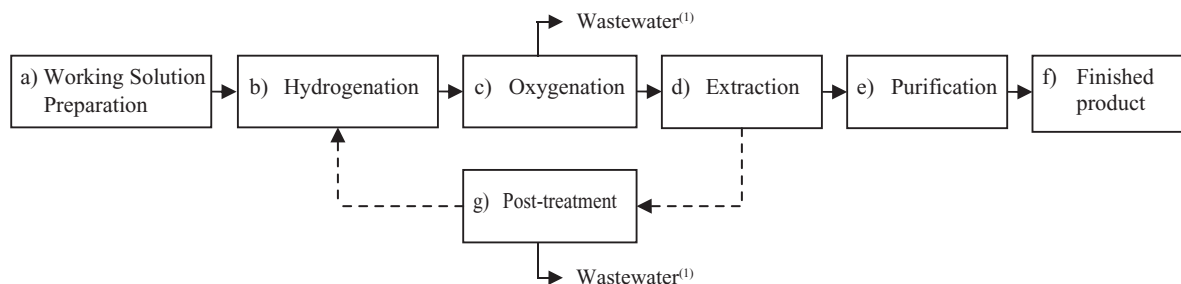
The wet sodium chlorate crystals are oven-dried to further reduce water content.

*g) Finished product*

The dried sodium chlorate will be separated into various grades using grading equipment.

## Hydrogen Peroxide

The following flowchart provides an overview of the processes involved in hydrogen peroxide production and the main discharges released:



Notes:

(1) Contains COD content.

*a) Working Solution Preparation*

The working solution (2-ethylanthraquinone) is prepared from anthraquinone, aromatic hydrocarbon and trioctyl phosphate. These three chemicals must be added accurately according to a fixed ratio in order to obtain a high yield of hydrogen peroxide.

*b) Hydrogenation*

The working solution enters the hydrogenation tower to undergo the hydrogenation process, where hydrogen gas is pumped into the tank throughout the process. As the working solution is recycled after each round of hydrogenation and oxygenation, the recycled working solution will also contain  $H_4eAQ$ , which is produced through the multiple hydrogenation and oxygenation processes.  $H_4eAQ$  has the same function with  $eAQ$  in the working solution, whereby by adding a palladium catalyst, the  $eAQ$  and  $H_4eAQ$  in the working solution reacts with the hydrogen gas to produce  $eAQH_2$  and  $H_4eAQH_2$ . The temperature of the hydrogenation tower is controlled by steam heat.

*c) Oxygenation*

In the oxygenation reactor, oxygenation process takes place, where  $eAQH_2$  and  $H_4eAQH_2$  in the working solution reacts with the oxygen from the atmosphere to produce hydrogen peroxide. At the same time, the reaction also restores the working solution and  $H_4eAQ$ . During this process, wastewater with COD content is produced, which is collected for treatment in our wastewater treatment facilities before discharge.

*d) Extraction*

Extraction is carried out to separate the hydrogen peroxide from the working solution mixture. High purity water is pumped from the top of the extraction tower. As it flows down through the working solution mixture, hydrogen peroxide in the working solution mixture dissolves in the water. At the end of this process, two layers of immiscible solution are formed; the top layer is the working solution and the bottom layer is the hydrogen peroxide solution. The purity level of this hydrogen peroxide solution is approximately within the range of 27.5% to 35.0%. The hydrogen peroxide solution will be collected from the bottom of the extraction tower and channeled into the next chamber for the purification process, leaving behind the working solution and a minimal amount of hydrogen peroxide solution in the extraction tower.

*e) Purification*

The hydrogen peroxide solution undergoes purification through the addition of aromatic hydrocarbon to remove traces of organic impurities.

*f) Finished product*

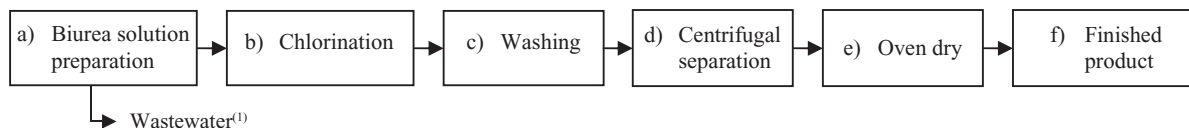
The hydrogen peroxide is stored in tankers or drums according to customer requirements.

*g) Post treatment*

The remaining working solution and the minimal amount of hydrogen peroxide solution (from the extraction process) in the extraction tower undergo post treatment before this mixture is pumped back into the hydrogenation tank to be used to generate hydrogen peroxide again. During this process, wastewater with COD content is produced, which is collected for treatment in our wastewater treatment facilities before discharge.

### ADC Foaming Agent

The following flowchart provides an overview of the processes involved in ADC foaming agent production and the main discharges released:



*Note:*

(1) Contains COD content and ammonia.

#### *a) Biurea solution preparation*

As solid biurea is unsuitable for further chemical reaction to form ADC foaming agent, it is mixed with diluted hydrochloric acid to form a solution with biurea suspension. The solid biurea is not dissolved in the diluted hydrochloric acid but this mixture is in liquid form with a solid suspension of biurea. During this process, wastewater with COD and ammonia content from the washing of biurea is collected for treatment in our wastewater treatment facilities before discharge.

#### *b) Chlorination*

The biurea solution is transferred into the chlorination reaction machine for the chlorination process. Here, a catalyst is added to facilitate the formation of azodicarbonamide, which is also known as ADC foaming agent. The mixture is stirred continuously and maintained at a certain temperature by the circulation of cold water.

#### *c) Washing*

The ADC foaming agent precipitate contains approximately 17% to 20% acid. Water is used to wash the precipitate multiple times until it is no longer acidic, achieving pH 7 (neutral). The solution from the first and second batches of washing is collected and reused at the beginning of the process to dissolve solid biurea for the purpose of preparing the biurea solution. Used water from this process, containing small amounts of hydrochloric acid, is reused in biurea solution preparation.

#### *d) Centrifugal separation*

Centrifugal separation removes most of the water from the ADC foaming agent precipitate, with the water content of the resulting solid ADC foaming agent controlled at a certain level.

#### *e) Oven dry*

The solid ADC foaming agent is then oven-dried.

#### *f) Finished Product*

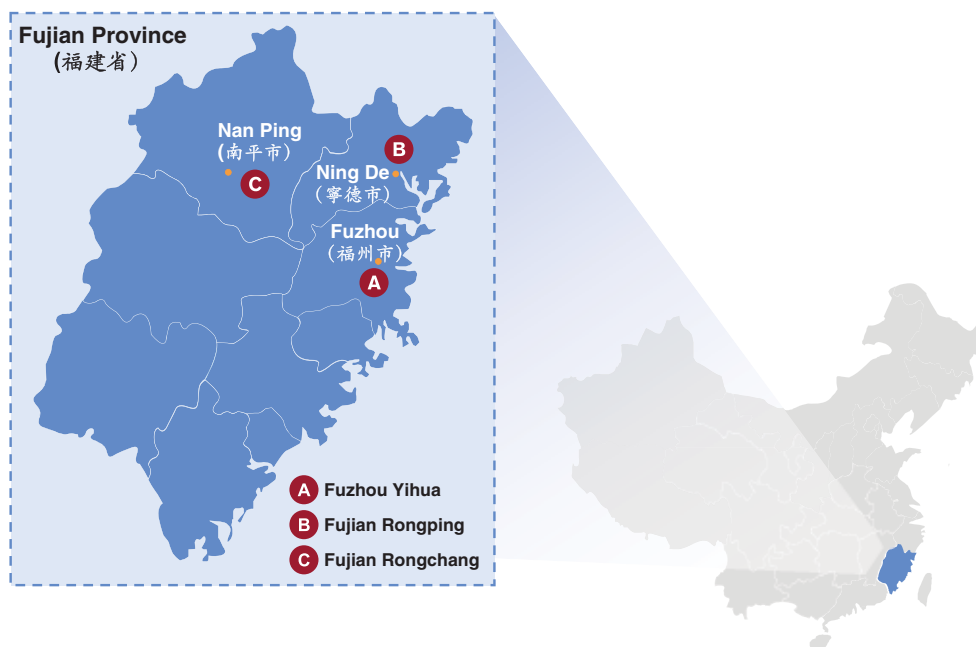
The production of ADC foaming agent is complete after it is oven-dried.



**PRODUCTION FACILITIES**

We have three production facilities in Fujian province, PRC, operated by our principal subsidiaries, Fuzhou Yihua, Fujian Rongchang and Fujian Rongping. As of September 30, 2011, our production facilities occupied a total site area of approximately 2,385,729 m<sup>2</sup>, and had an aggregate gross floor area of approximately 134,520 m<sup>2</sup>, excluding buildings under construction. Our results of operations depend on our production capacity and utilization rate. Our pro-rated designed production capacity increased from 288,000 tons in 2008, to 318,700 tons in 2009, and to 342,999 tons in 2010, and our pro-rated designed production capacity for the six months ended June 30, 2011 was 223,500 tons.

The following map shows the location of our production facilities as of the Latest Practicable Date:



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The following table sets forth our overall (i) pro-rated designed production capacity; (ii) actual production volume; and (iii) utilization rate of our production facilities for the periods indicated:

	<b>Pro-rated designed production capacity<sup>(1)</sup> (tons)</b>	<b>Actual production (tons)</b>	<b>Utilization rate<sup>(2)</sup></b>
<b>For the year ended December 31, 2008:</b>			
Bleaching and disinfectant chemicals .....	163,833	147,084	90%
ADC foaming agent .....	13,167	8,549	65%
Others .....	111,000	76,207	69%
<b>For the year ended December 31, 2009:</b>			
Bleaching and disinfectant chemicals .....	195,000	185,128	95%
ADC foaming agent .....	15,000	11,692	78%
Others .....	108,700	88,773	82%
<b>For the year ended December 31, 2010:</b>			
Bleaching and disinfectant chemicals .....	210,833	204,770	97%
ADC foaming agent .....	15,000	14,762	98%
Others .....	117,166	94,862	81%
<b>For the six months ended June 30, 2011:</b>			
Bleaching and disinfectant chemicals .....	152,500	141,812	93%
ADC foaming agent .....	7,500	7,671	102%
Others .....	63,500	51,347	81%

*Notes:*

- (1) Representing the designed production capacity for the year indicated, which is calculated based on 300 days in a year.
- (2) Representing the percentage of actual production volume against the pro-rated designed production capacity for the period indicated.

### **Fuzhou Yihua**

Our production facility operated under Fuzhou Yihua is located at Yongtai County, in Fuzhou City, at the heart of the Western Taiwan Straits Economic Zone. As of September 30, 2011, the production facility occupied a total site area of approximately 2,026,886 m<sup>2</sup>. This includes the production facility's factory site of 135,800 m<sup>2</sup> and its hydroelectric power plant of 1,891,086 m<sup>2</sup>, which is located approximately 40 kilometers from the factory site.

Fuzhou Yihua primarily produces bleaching and disinfectant chemicals (hydrogen peroxide and sodium chlorate). It also produces other specialty chemicals (sodium perchlorate and potassium perchlorate). In 2007, our production line for ADC foaming agent at Fuzhou Yihua was relocated to Fujian Rongchang in order to focus production on hydrogen peroxide and sodium chlorate. Production of ADC foaming agent was centralized at Fujian Rongchang to achieve economies of scale. During the Track Record Period, we have continuously updated the equipment and technology. We have also enhanced the cost efficiency by balancing coal-fired and hydroelectric supply. As a result, Fuzhou Yihua's

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production capacity of hydrogen peroxide increased from 48,333 tons per year in 2008 to 60,000 tons per year in 2009. Sodium chlorate production capacity remained at 30,000 tons per year throughout the Track Record Period.

The following table sets forth our (i) pro-rated designed production capacity; (ii) actual production volume; and (iii) utilization rate of our production facility operated by Fuzhou Yihua for the periods indicated:

	Pro-rated designed production capacity <sup>(1)</sup> (tons)	Actual production (tons)	Utilization rate <sup>(2)</sup>
<b>For the year ended December 31, 2008:</b>			
Bleaching and disinfectant chemicals .....	78,333	73,807	94%
ADC foaming agent .....	—	—	—
Others .....	8,000	6,131	77%
<b>For the year ended December 31, 2009:</b>			
Bleaching and disinfectant chemicals .....	90,000	87,220	97%
ADC foaming agent .....	—	—	—
Others .....	8,000	7,838	98%
<b>For the year ended December 31, 2010:</b>			
Bleaching and disinfectant chemicals .....	90,000	92,797	103%
ADC foaming agent .....	—	—	—
Others .....	8,000	8,257	103%
<b>For the six months ended June 30, 2011:</b>			
Bleaching and disinfectant chemicals .....	45,000	45,285	101%
ADC foaming agent .....	—	—	—
Others .....	4,000	4,027	101%

*Notes:*

- (1) Representing the designed production capacity for the year indicated, which is calculated based on 300 days in a year.
- (2) Representing the percentage of actual production volume against the pro-rated designed production capacity for the period indicated.

### Fujian Rongchang

Our Fujian Rongchang production facility is located at Fuwen Industrial Zone, in Shunchang County, Nanping City, approximately 340 kilometers from Fuzhou City. The production facility is conveniently located close to the railway lines and main roads, providing logistical advantages to our operations. There are also transportation service providers, salt, coal, urea and sulfuric acid suppliers located nearby providing convenient transport and sourcing of our raw materials. As of September 30, 2011, the production facility occupied a total site area of approximately 250,019 m<sup>2</sup>.

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Fujian Rongchang primarily produces bleaching and disinfectant chemicals (hydrogen peroxide). It also produces ADC foaming agent and other specialty chemicals (biurea). During the Track Record Period, improvements to the production facility and production efficiency increased Fujian Rongchang's designed production capacity of hydrogen peroxide from 32,500 tons in 2008 to 40,000 tons in 2009. Through improved production efficiency, designed production capacity for ADC foaming agent increased from 13,167 tons per year in 2008 to 15,000 tons per year in 2009. In 2009, we began expanding the production capacity of Fujian Rongchang, and increased its annual designed production capacity for caustic soda to 80,000 tons in November 2010.

The following table sets forth our (i) pro-rated designed production capacity; (ii) actual production volume; and (iii) utilization rate of our production facility operated by Fujian Rongchang for the periods indicated:

	<b>Pro-rated designed production capacity<sup>(1)</sup> (tons)</b>	<b>Actual production (tons)</b>	<b>Utilization rate<sup>(2)</sup></b>
<b>For the year ended December 31, 2008:</b>			
Bleaching and disinfectant chemicals .....	52,500	42,086	80%
ADC foaming agent .....	13,167	8,549	65%
Others .....	91,000	59,676	66%
<b>For the year ended December 31, 2009:</b>			
Bleaching and disinfectant chemicals .....	60,000	56,713	95%
ADC foaming agent .....	15,000	11,692	78%
Others .....	91,000	72,897	80%
<b>For the year ended December 31, 2010:</b>			
Bleaching and disinfectant chemicals .....	67,500	61,073	90%
ADC foaming agent .....	15,000	14,762	98%
Others .....	94,166	75,012	80%
<b>For the six months ended June 30, 2011:</b>			
Bleaching and disinfectant chemicals .....	35,000	33,661	96%
ADC foaming agent .....	7,500	7,671	102%
Others .....	52,000	41,383	80%

*Notes:*

- (1) Representing the designed production capacity for the year indicated, which is calculated based on 300 days in a year.
- (2) Representing the percentage of actual production volume against the pro-rated designed production capacity for the period indicated.

**Fujian Rongping**

Our Fujian Rongping production facility is located at Pingnan County, Ningde City, approximately 240 kilometers from Fuzhou City. Situated over 800 meters above sea level, there are a number of hydroelectric plants located nearby that take advantage of the high altitude to generate electricity. Their supply of electricity to the provincial power grid has a positive effect on the availability, stability and price of electricity available to Fujian Rongping. The price of electricity in the Pingnan county area is generally less expensive because of the readily available supply of electricity. As of September 30, 2011, the production facility occupied a total site area of approximately 108,824 m<sup>2</sup>.

Fujian Rongping primarily produces bleaching and disinfectant chemicals (sodium chlorate). It also produces other specialty chemicals (potassium chlorate). During the Track Record Period, we have increased the designed production capacity of sodium chlorate from 33,000 tons per year in 2008, to 45,000 tons per year in 2009. We have also increased the designed production capacity of potassium chlorate from 12,000 tons per year in 2008 to 15,000 tons per year in 2010 due to increased demand for this product, by conversion of production capacity from sodium chlorate. In 2009, we also began expanding the production capacity of Fujian Rongping to cater for hydrogen peroxide production, and reached a designed annual production capacity of 100,000 tons in December 2010.

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The following table sets forth our (i) pro-rated designed production capacity; (ii) actual production volume; and (iii) utilization rate of our production facility operated by Fujian Rongping for the periods indicated:

	<b>Pro-rated designed production capacity<sup>(1)</sup> (tons)</b>	<b>Actual production (tons)</b>	<b>Utilization rate<sup>(2)</sup></b>
<b>For the year ended December 31, 2008:</b>			
Bleaching and disinfectant chemicals .....	33,000	31,192	95%
ADC foaming agent .....	—	—	—
Others .....	12,000	10,401	87%
<b>For the year ended December 31, 2009:</b>			
Bleaching and disinfectant chemicals .....	45,000	41,195	92%
ADC foaming agent .....	—	—	—
Others .....	9,700	8,038	83%
<b>For the year ended December 31, 2010:</b>			
Bleaching and disinfectant chemicals .....	53,333	50,900	95%
ADC foaming agent .....	—	—	—
Others .....	15,000	11,593	77%
<b>For the six months ended June 30, 2011:</b>			
Bleaching and disinfectant chemicals .....	72,500	62,865	87%
ADC foaming agent .....	—	—	—
Others .....	7,500	5,937	79%

*Notes:*

- (1) Representing the designed production capacity for the year indicated, which is calculated based on 300 days in a year.
- (2) Representing the percentage of actual production volume against the pro-rated designed production capacity for the period indicated.

### EXPANSION PLANS

In the NDRC's 2007 release of the Paper Industry Development Policy (《造纸产业展政策》), it outlined the importance of the southeastern coastal regions, including Fujian province, as the primary forestry and paper industry development areas and the policy to advance the development of the paper manufacturing industry. Many paper manufacturers in the region have been and are expanding their operations. As such, we believe the demand for hydrogen peroxide has significant growth potential in its downstream application as a bleaching agent in the pulp and paper industry in the southeastern coastal regions of the PRC, and we plan to capture such opportunities by expanding our hydrogen peroxide production.

We also plan to further increase our total production capacity to meet increasing market demand for our products and to maintain and increase our market share. Following the Global Offering, we intend to

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expand our production capacity by constructing additional production capacity at our existing production facilities and possible acquisitions of third-party producers. The following table sets out the pro-rated designed production capacity and expected pro-rated designed production capacity of our existing production facilities for the periods indicated:

### Capacity Expansion Plans

	For the year ended December 31, 2010	For the year ending December 31,		
		2011	2012	2013
		(tons)		
<b>Bleaching and disinfectant chemicals:</b>				
Sodium chlorate .....	75,000	75,000	75,000	125,000
Hydrogen peroxide .....	108,333	200,000	200,000	300,000
Others .....	<u>27,500</u>	<u>31,667</u>	<u>35,000</u>	<u>63,000</u>
<b>Subtotal .....</b>	<b>210,833</b>	<b>306,667</b>	<b>310,000</b>	<b>488,000</b>
<b>ADC foaming agent .....</b>	<b>15,000</b>	<b>16,667</b>	<b>20,000</b>	<b>30,000</b>
<b>Other specialty chemicals:</b>				
Caustic soda .....	56,666	80,000	80,000	130,000
Others .....	<u>60,500</u>	<u>53,000</u>	<u>53,000</u>	<u>65,000</u>
<b>Subtotal .....</b>	<b>117,166</b>	<b>133,000</b>	<b>133,000</b>	<b>195,000</b>
<b>Total .....</b>	<b><u>342,999</u></b>	<b><u>456,334</u></b>	<b><u>463,000</u></b>	<b><u>713,000</u></b>

### Expected Capital Expenditure

	For the year ending December 31,	
	2011	2012
	(RMB in millions)	
<b>Total investment<sup>(1)</sup> .....</b>	<b><u>57</u></b>	<b><u>530</u></b>

Notes:

(1) Capacity expansion resulting from such investment is expected to materialize in the subsequent year.

The estimated total investment for such capacity expansions is approximately RMB57 million and RMB530 million in 2011 and 2012, respectively, comprising (i) RMB180 million for sodium chlorate, (ii) RMB192 million for hydrogen peroxide, (iii) RMB65 million for ADC foaming agent, (iv) RMB120 million for caustic soda, and (v) RMB30 million for general maintenance and facility upgrades. We expect to fund approximately 40% of such capital needs from long-term bank borrowings with the remainder from funds generated from our operations and the proceeds from the Global Offering.

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In addition, in order to capture opportunities in downstream industries, we also intend to evaluate the production of other specialty chemical products that are currently not part of our product mix. We believe we can capitalize on our established strength and reputation in our existing core products to broaden our product mix, which can also help us diversify our sources of revenue. Expansion into the production of new products may involve alteration of our existing production facilities and development or acquisition of new production facilities. Further, we are also considering and actively seeking opportunities to diversify our product mix to include products, such as related by-products of our operations or those that make use of our by-products in their production, the production or sales of which would benefit from synergies with our current operations. Although we have started the project evaluation process, we have not identified any specific new product type.

As of the Latest Practicable Date, our expansion plans were at the preparation stage, undergoing project planning and feasibility studies. We cannot assure you that our expansion plans will be successful or fully implemented as they are dependent upon a number of factors, including market conditions, demand for our products, and whether we are able to obtain the requisite governmental approvals and permits at the relevant times. See “Risk Factors — 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.”

### SALES AND MARKETING

#### Sales

We sell our products to both domestic and international customers. Our domestic and international customers are typically manufacturers or distributors in the pulp and paper, textile printing and dyeing, water treatment, shoe making, automobile upholstery and other manufacturing industries. Our exports are conducted mainly through international distributors. Some of our major customers, such as Soda Nikka Co., Ltd., one of the major Japanese specialty chemicals trading companies, have maintained a long-term business relationship with us. Soda Nikka Co., Ltd. has been our customer since 2005. All our customers are independent third parties to our Group.

The following table sets out our revenue generated based on geographical location for the periods indicated:

	<u>For the year ended December 31,</u>			<u>For the six</u>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>months ended</u>
	(RMB in thousands)			<u>June 30, 2011</u>
<b>Domestic sales<sup>(1)</sup>:</b>				
PRC .....	602,144	891,168	1,013,657	601,066
<b>International sales<sup>(2)</sup>:</b>				
Japan .....	65,171	66,527	93,772	52,360
Others <sup>(3)</sup> .....	32,740	48,807	104,397	61,890
<b>Total</b> .....	<b><u>700,055</u></b>	<b><u>1,006,502</u></b>	<b><u>1,211,826</u></b>	<b><u>715,316</u></b>

*Notes:*

- (1) Representing sales to domestic customers including domestic distributors which may also distribute our products overseas.
- (2) Representing sales directly to international customers including international distributors.
- (3) Include South Korea, Thailand, India, Indonesia and other countries. International sales to other countries increased significantly from RMB48.8 million in 2009 to RMB104.4 million in 2010 primarily due to an increase in the sales of ADC foaming agent to India.



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Our domestic customers generally take delivery of our products at our production facilities or make their own arrangements for transportation. We also assist our customers in arranging for transportation services from independent third party transportation service providers. For our overseas customers, we are generally responsible for bearing the transportation costs for the delivery of our products to the designated seaport. Shipping charges and insurance costs are borne by our overseas customers.

Where we are requested to deliver our products, we engage independent third party transportation service providers who deliver our products by road or sea transportation.

During the Track Record Period, we have not experienced any material sales return on any of our products.

### *March 2011 earthquake in Japan*

On March 11, 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 damage to the Fukushima I Nuclear Power Plant in Fukushima, resulting in radiation leakages to the surrounding areas (collectively, the “Earthquake Events”).

We are of the view that the Earthquake Events will not significantly affect our business operations. We believe our Japanese customers demand the highest quality of sodium chlorate because of their strict production standards. For the six months ended June 30, 2011, exports of sodium chlorate to Japan constituted approximately 7% of our total sales revenue. Since the Earthquake Events occurred, there has not been any apparent adverse effect on the demands from our downstream customers for our sodium chlorate in Japan, who are primarily paper manufacturers, and we continue to export sodium chlorate to Japan in the ordinary course of business. Since the Earthquake Events, we have also discussed the situation with our Japanese distributors and have been informed that there has not been any decrease in demand for our sodium chlorate. Should the Earthquake Events begin to adversely affect our Japanese downstream customers, we believe we are able to divert our sales to satisfy demands elsewhere, such as in the PRC market. We do not have any branch or sales office in Japan. We believe the Earthquake Events will not have any material adverse effect on our overall sales and profitability.

### **Marketing**

Our sales and marketing team is responsible for the marketing of our products. As of June 30, 2011, we had 53 sales and marketing staff who are dedicated to promoting our products to potential and existing customers. They regularly conduct market research and analysis and liaise with potential and existing customers on their needs and expectations, which are taken into account when we formulate our research, production and sales strategies to develop and produce products to meet such demands. We also promote our products through advertising and product exhibitions where we could introduce and explain the features, uses and specifications of our products to potential and existing customers. Upon request, we also provide technical assistance to our existing customers and any transporting of our products that they may require. In terms of after-sales service, our sales and marketing staff regularly visits our customers to see if they are satisfied with our products and also try to gain insights into the customers’ own product developments which, in turn, may affect their demand for our products. Customer feedback from these visits is important

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to our management's formulation of production and sales strategies. If there is any negative feedback in relation to our products' quality or usage, we would arrange for our relevant personnel to attend to the customer's factory, analyze and seek to resolve the issue to the customer's satisfaction.

### Customers

In addition to our marketing efforts described above, we believe our cooperation with well-known or high-end domestic and international customers, and their use of our products as a raw material in their production or distribution of our products benefits our Company's image and is one of the most effective methods of promoting our products. These well-known and high-end customers are our major customers, which include both distributors and direct sales customers and are generally large, well-established companies that have an average of over five years of business relationship with us. For example, Soda Nikka Co., Ltd., established since 1947, is a prominent Tokyo-listed specialty chemical trading company that engages in the trading of chemical products, petrochemical products, electronic materials, synthetic resin, equipment, machinery, containers and other processed products. We have cooperated with Soda Nikka Co., Ltd. since 2005 and it has become one of our main distributors of sodium chlorate in Japan.

For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, sales to our five largest customers, as measured by sales revenue, accounted for approximately 19.6%, 17.3%, 24.2% and 23.0% of our total revenue, respectively, and sales to our largest customer, as measured by sales revenue, accounted for approximately 5.0%, 4.2%, 5.8% and 6.6% of our total revenue, respectively. All of the above five largest customers are independent third parties and none of our directors, their respective associates or any Shareholders who own more than 5% of our issued share capital, to the knowledge of our directors, had any interest in any of the above five largest customers during the Track Record Period.

We generally offer our customers credit terms ranging from 30 to 90 days. In particular, we generally grant credit terms of 30 days to foreign customers of our sodium chlorate, 60 to 90 days for domestic customers of our sodium chlorate, 60 to 90 days for customers of our hydrogen peroxide, 30 to 90 days for customers of our ADC foaming agent and 30 to 90 days for customers of our other specialty chemicals. Payments are settled by bank acceptances, letters of credit or telegraphic transfer. We assess the credibility of our customers and their order volume in deciding the appropriate credit terms to be offered. For new customers, we may require upfront payment before delivery. We also provide credit terms of up to 120 days for certain long-term or large customers under exceptional circumstances. For international customers, we normally receive payment or a portion of payment in advance before delivery.

The following table sets out the number of our distributor customers for the periods indicated:

	<u>For the year ended December 31,</u>			<u>For the six</u>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>months ended</u>
				<u>June 30, 2011</u>
Number of distributors at the beginning of the period . . . . .	263	203	166	160
Number of new appointments . . . . .	53	77	94	21
Number of terminations . . . . .	(113)	(114)	(100)	(32)
Number of distributors at the end of the period . . . . .	<u>203</u>	<u>166</u>	<u>160</u>	<u>149</u>

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All of our distributors have signed annual or longer-term contracts with us. We have an average of approximately three years' business relationship with our distributors. Our contracts with other direct sales customers are short-term in nature and do not exceed one year in duration. For further information on revenue derived from long-term distributors and short-term direct sales customers, see "Financial Information — Certain Consolidated Statements of Comprehensive Income Items — Revenue."

We regularly monitor and evaluate the performance of our distributors through regular sales reports submitted to us by our distributors and our own investigations. The parameters we examine include (i) whether there are large discrepancies between actual sales and expected sales of such distributors for a given period, (ii) their ability to attract new customers and open up new markets, (iii) their ability to provide after-sales services, (iv) the stability of their monthly orders from us, (v) their ability to maintain consistent pricing in line with our pricing policy, (vi) records of refunds provided by such distributors to customers, whether or not such records indicate poor performance, (vii) their loyalty, whether the distributors purchase from sources other than us, and (viii) their ability to execute their obligations under the relevant contracts. During the Track Record Period, to the best of our knowledge, there were no breaches by any of our distributors of their obligations under their respective contracts with us. However, we terminated a number of distributors during the Track Record Period as a result of their failure to meet our expectations described above, including those that did not meet the agreed minimum purchase commitment. Most of these terminations were initiated by us. In 2008, 2009 and 2010, while the number of new distributor appointments increased due to our efforts in expanding our operations, we terminated a larger number of distributors during those periods, resulting in a net decrease in the number of distributors. For the six months ended June 30, 2011, we enhanced our focus on maintaining and assisting the growth of our existing and stronger-performing distributors and reduced the number of new appointments of small to medium-sized distributors. The decrease in number of distributors during the Track Record Period, from 263 to 149, did not materially affect our business operations and financial performance because of our well diversified distribution network and the fact that we typically only terminate underperforming distributors. For the six months ended June 30, 2011, the amount of revenue attributable to distributors terminated during the period was RMB5.4 million, representing approximately 0.8% of our total revenue for the period.

During the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, our top 20 distributors accounted for approximately 66.5%, 64.1%, 74.0% and 77.4% of our total revenue from distributors, respectively. These top 20 distributors provided a relatively stable source of income and, as a result, terminations of other smaller and underperforming distributors during the Track Record Period did not have a material impact on our operational and financial performance. We maintain our relationship with distributors who are able to meet our expectations by working with them closely to help them expand their own operations. Notwithstanding our focus on maintaining and assisting the growth of our existing distributors, we are continuing to expand our distribution network by signing up new distributors as we seek new opportunities and expand our market coverage.

In conducting our own investigations to monitor our distributors' sales activities and inventory levels, as well as ascertaining how our products are sold to downstream customers, we regularly visit our top 20 distributors to examine their sales activities and their inventory. We also visit downstream customers of these distributors in order to gain insights into the distributors' sales and after-sales servicing performance. For smaller distributors, we also arrange selective visits with them and we regularly liaise with them to gain information on their performance. If distributors do not meet our expectations as described above, we adjust our distribution arrangements with these distributors accordingly, ultimately terminating the distribution arrangements if they do not improve and contribute to our operations. Two of our top 20 distributors in

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2008, who had since dropped out from our top 20 list, were terminated in 2010. One of these terminations was due to the distributor's inability to maintain its purchase commitment to us, and the other was due to the distributor's sourcing and distribution of lower-grade products from other suppliers which we believe had a negative marketing effect on the sale of our products.

When seeking to admit new distributors for our products, we consider a number of criteria, including (i) whether such distributors possess the requisite legal qualification, including the necessary approvals and permits to engage in distribution of chemical products, (ii) their length of business operations, which should not be less than three years, (iii) whether they have strong funding and are able to make punctual payments, (iv) their business performance for the last three years, which should demonstrate revenue of at least RMB10.0 million per year, (v) the quality of their staff members, (vi) their ability and potential to open new markets, (vii) our competitors' corresponding strategies in the relevant markets, and (viii) these distributors' performance under a short-term provisional cooperation agreement with us. We intend to maintain our high standards in selecting quality distributors to enhance our business operations and reputations.

Our distribution agreements with distributors typically specify certain geographical restrictions in relation to their operations. Further, our distribution agreements also contain our sales return policy, which typically allows products to be returned within seven days of purchase if there are product quality issues. When we are alerted to such issues, we will dispatch our sales and technical personnel to contact our distributor to discuss potential remedial measures. If there exists a quality issue that cannot be remedied, such distributors may return the products to us. Depending on the type of products, we generally offer our distributors credit terms of between 30 to 90 days.

### **Pricing**

The prices of our products are predominantly determined based on arm's length negotiations with our international and domestic customers. The factors that affect the negotiations with our customers and, consequently, determine our products' prices include general economic conditions, market supply and demand, our production costs and capacity, and the prices of our competitors' products.

Most of our domestic sales are conducted based on contracts with references to spot prices, and are based on arm's length negotiations. Under such contracts, most of our customers place monthly orders with us.

Our international sales, including exports to Japan through international distributors such as Soda Nikka Co., Ltd., in particular, are conducted pursuant to annual contracts which typically pre-determine prices for the next 12 months. We typically negotiate prices with Japanese customers in February or March because the fiscal year of Japanese companies usually starts in April. During the Track Record Period, we increased our market share in Japan through both delivering quality products and customer services and implementing competitive pricing. Net of certain marketing expenses subsidized to our Japanese distributors, our products sold in Japan were, on average, priced lower than those sold domestically. Our sales in other international markets are conducted under long-term contracts. Compared to Japan, our pricing for sales in other international countries is generally higher and takes into account factors such as our competitors' product quality and pricing strategies, our inventory level, price of raw materials, customer requirements and long-term customer loyalty, which may be rewarded with discounts.

Most of our contracts with our distributor customers specify an agreed minimum purchase commitment over the duration of the contracts. These contracts typically do not specify termination conditions.

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For 2008, 2009 and 2010 and the six months ended June 30, 2011, our total revenue generated from contracts with pre-determined sales prices amounted to RMB58.5 million, RMB62.9 million, RMB96.5 million and RMB57.6 million, respectively, representing 8.4%, 6.2%, 8.0% and 8.1% of our total revenue for the same periods, respectively.

### ELECTRICITY, RAW MATERIALS AND WATER

#### Electricity and water

Electricity is critical to our production process and a large component of our costs of production. We also use water in our production as an ingredient or to produce steam in our boilers. During 2008, 2009 and 2010 and the six months ended June 30, 2011, electricity and other utilities amounted to approximately RMB169.1 million, RMB203.3 million, RMB248.1 million and RMB129.8 million, respectively, representing 33.7%, 27.8%, 27.8% and 26.6% of our cost of sales, respectively. During the Track Record Period, we did not experience any electricity supply or water shortage.

We own and operate a hydroelectric plant at Fuzhou Yihua which provides hydroelectricity exclusively for our operations at Fuzhou Yihua. The hydroelectric plant includes an approximately 21,000,000 m<sup>3</sup> reservoir and has a designed capacity of 33,100 kilowatts. As of the Latest Practicable Date, the power plant section was managed by 84 full-time employees, 76 of whom are licensed electricians and eight of whom are other support staff. The reservoir section is managed by 14 full-time employees. All 98 of our employees at the hydroelectric power plant have relevant and extensive experience in their work, and have worked with us for between 10 to 40 years. The land use right to the hydroelectric plant is for 50 years and we depreciate the land, buildings and equipment at the plant over their estimated useful lives of between 10 to 50 years. According to our PRC legal adviser, we have obtained all necessary approvals, permits and licenses for the operation of the hydroelectric plant. For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, the repair and maintenance cost of the hydroelectric plant was RMB1.4 million, RMB2.7 million, RMB4.1 million and RMB1.2 million, respectively.

Fuzhou Yihua is also connected to the provincial power grid, providing access to the provincial electricity supply. The production facility's access to both self-generated hydroelectricity and the provincial electricity supply gives us the advantage of having access to both low-cost hydroelectricity and a large and stable provincial electricity supply. The dual power access stabilizes supply and costs of electricity since the effect of seasonal factors which may negatively affect the supply of hydroelectric power or price of provincial electricity can be minimized as we can rely on the other source of electricity. Excess hydroelectricity generated can also be uploaded to the provincial power grid to offset costs of our use of provincial electricity. The dual power access for Fuzhou Yihua provides a large and stable power supply which can be exploited to enlarge our production capacity to meet market demand for our products. If our hydroelectric plant should experience any interruption or breakdown, Fuzhou Yihua can sufficiently rely on electricity from the provincial power grid to ensure its operations are not interrupted. During the Track Record Period, our hydroelectric power plant did not experience any interruption or breakdown and all electricity generated from our hydroelectric power plant was utilized by Fuzhou Yihua with no excess electricity uploaded to the provincial power grid.

Fujian Rongchang obtains its electricity supply from the provincial power grid. It has installed a backup electric generator with a capacity of 300 kilowatts for emergency electricity supply.

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Fujian Rongping obtains its electricity supply from the provincial power grid which is supplemented by hydroelectricity supplied by surrounding hydroelectric plants. In June 2010, Fujian Rongping entered into an electricity supply agreement with Fujian Pingnan County Power Supply Co., Ltd. (福建省屏南縣供電有限公司), under which Fujian Rongping may acquire hydroelectricity and provincial electricity at agreed prices stipulated thereunder. The agreement will expire in March 2013 and may be renewed subject to negotiations.

Fujian Rongping owned and operated a hydroelectric power plant in the past, which was disposed of in 2007. The plant was located in Pingnan County, approximately 30 km from Fujian Rongping, and at the time of disposal, had an annual production capacity of approximately 100 million kWh. The plant was sold to a provincial electricity grid operator, an independent third party, for a consideration of RMB150 million, based on arm's length negotiations.

We disposed of Fujian Rongping's hydroelectric power plant primarily for two reasons:

Firstly, due to its geographical location, Fujian Rongping's hydroelectric power plant became unable to provide a continuous power supply. It was situated at the downstream of a river and relied on the river's flow of water. It did not have reservoir facilities to store water for electricity generation. Before the disposal, a new hydroelectric power plant was built in a location upstream which had joined the national electricity grid. This new power plant had reservoir facilities to store the river water. It released the river water for its operation to provide power to the grid during peak seasons of electricity demand. During non-peak seasons, this power plant did not operate and, as a result, did not release the river water downstream. Fujian Rongping's hydroelectric power plant was therefore unable to operate continuously during non-peak seasons, and thereby unable to meet our business need for a continuous power supply.

Secondly, the power capacity of Fujian Rongping's hydroelectric power plant was not able to meet our increasing production demand at Fujian Rongping, as we planned to expand production capacity for chlorate products and build a hydrogen peroxide production line at Fujian Rongping. To carry out these expansion projects and meet increasing power demands, we needed a larger and more stable power supply. As such, we sold Fujian Rongping's hydroelectric power plant in 2007 and Fujian Rongping has since relied on external power supply.

For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, our use of self-generated electricity amounted to approximately 17.3%, 16.6%, 15.0% and 15.7% of our Group's total electricity usage for the same periods, with external electricity supply constituting the remaining 82.7%, 83.4%, 85.0% and 84.3% of our electricity usage, respectively.

Our main source of water has been nearby rivers. As of the Latest Practicable Date, we had valid water withdrawal permits for our production facilities. Incoming water is first treated and filtered before it is stored and used in our production processes as a raw material or in our boilers to produce steam.

### **Raw Materials**

The main raw materials we require in our production processes include coal, industrial salt, urea, potassium chloride, and foaming agent. We satisfy our requirement of hydrogen and chlorine through internal production. Some of our products such as sodium chlorate and caustic soda, are further utilized to produce

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downstream products including sodium perchlorate, potassium perchlorate, biurea and ADC foaming agent. See “— Products.” In addition, we also purchase coal as fuel for our boilers which produce steam used in our production processes. 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.

The cost of raw materials constituted the largest component of our cost of sales and, as such, fluctuations in the prices of our raw materials have a direct impact on our cost of sales. The raw materials used and changes in inventory amounted to approximately RMB249.4 million, RMB443.6 million, RMB553.9 million and RMB307.1 million for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, respectively, representing 49.7%, 60.7%, 62.2% and 63.0% of the cost of sales for the same periods, respectively.

The following table sets forth the average cost per ton of the main raw materials required for our operations for the periods indicated:

	For the year ended December 31,			For the six
	2008	2009	2010	months ended June 30, 2011
	(RMB per ton)			
Industrial salt .....	373	256	295	391
Urea .....	2,011	1,769	1,842	2,044
Coal .....	452	411	484	619
Potassium chloride .....	3,755	3,042	2,362	2,761
Foaming agent .....	13,685	11,762	12,404	14,718

We purchase our raw materials from a number of domestic suppliers. Most of the purchase contracts are valid for one month, renewable upon expiry. We typically renew these contracts taking into account expected demand for our products in the next year. Most of these purchase contracts provide for a seven-day written notice period for renewal or termination. The purchase prices of our raw materials generally follow market prices. We do not guarantee purchase quantities with our suppliers but some of our suppliers guarantee a minimum supply quantity. We did not experience any major shortage of raw material supplies during the Track Record Period.

During the Track Record Period, we were able to enter into certain long-term supply contracts with our suppliers, therefore ensuring we have sufficient raw materials to support our production processes. For industrial salt, potassium chloride and urea, we have entered into long-term supply contracts with a number of our suppliers. We have not entered into long-term supply contracts with coal suppliers because every batch of coal tends to vary in quality and, therefore, it is not in our interest to source coal from the same supplier over the long-term. In addition, we believe coal suppliers are relatively plentiful in Fujian province. As we had completed our expansion of caustic soda production capacity at Fujian Rongchang in November 2010, we expect to be able to produce an increased amount of raw materials needed for ADC foaming agent production, such as biurea which is a by-product of caustic soda production, and would, therefore, reduce our demand for sourcing foaming agent externally.

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The following table sets out the number of suppliers we engaged for each of our major raw materials for the periods indicated:

	For the year ended December 31,			For the six
	2008	2009	2010	months ended June 30, 2011
Industrial salt .....	12	13	13	9
Urea .....	5	6	7	5
Coal .....	12	8	9	6
Potassium chloride .....	9	11	8	3
Foaming agent .....	<u>1</u>	<u>4</u>	<u>7</u>	<u>5</u>
<b>Total</b> .....	39	42	44	28

### INVENTORY CONTROL

Our inventory is comprised of raw materials, work in progress and finished goods, which we store in our own warehouses. We formulate annual plans for production, sales and procurement which are updated monthly based on a review of our inventory levels. Our procurement and sales plans are also adjusted periodically based on such monthly inventory reviews.

Most of our customers enter into monthly purchase contracts with us that specify their need for the following month. We have also a large number of long-term customers, namely distributors, who provide stable demand for our products. For example, since 2005, we have entered into and renewed annually our contract with Soda Nikka Co., Ltd., one of the major Japanese specialty chemicals trading companies, under which it places monthly orders with us for sodium chlorate. These long-term stable customers allow us to plan our production and sales in advance and enable us to effectively monitor and maintain regular inventory levels. We maintain records of inventory levels to ensure that such levels are in strict compliance with the relevant safety standards and PRC laws and regulations.

### ENVIRONMENTAL PROTECTION

#### Overview

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 loss of environmental and production licenses and, in more extreme cases, criminal proceedings against a manufacturer and its management. The PRC government (including its provincial level) also has the



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discretion to suspend or close any facility failing to comply with such environmental protection laws and regulations.

We consider the implementation of environmentally responsible practices and the maintenance of high environmental standards to be a core value of our business. Under PRC laws, we are required to obtain and maintain certain permits and construction approvals in relation to environmental protection and to perform applicable environmental protection obligations. See “Regulations — Regulations on Environmental Protection.” In that regard we have obtained waste discharge permits, passed applicable environmental impact appraisals in relation to constructions of our production facilities, engaged in other environmental protection practices and regularly made capital expenditures in relation to compliance with environmental laws and regulations. In addition, we have obtained ISO 14001:2004 environmental management system certification for our production facilities at Fujian Rongping and are in the process of obtaining the same for Fujian Rongchang and Fuzhou Yihua. We have also taken certain voluntary actions to attempt to reduce the risk of future environmental violations. Nonetheless, given the nature of our operations, we cannot assure you that we will not experience environmental violations in the future, and such violations could have a material impact on our business or results of operations. As part of our commitment to sound environmental practices, we have adopted the following practices and invested in the following systems in our production facilities:

- *Waste water treatment* — we have installed water treatment facilities to treat waste water from our production. The treatment process includes oil separation, flotation, neutralization, sedimentation and oxidation. We also monitor the pH and COD levels of treated waste water discharge. Residues from sedimentation are collected and undergo solid waste treatment.
- *Residual gas treatment* — we have installed gas treatment facilities to remove sulfur and dust from residual gas by the use of lime filtering and electrostatic dust removal. We have also installed absorption towers for residual gases from electrolysis processes during our production. Residual aromatic hydrocarbons are absorbed through the use of activated carbon filters. Hydrogen gas and chlorine gas are also recycled and used as a raw material for the production of hydrogen peroxide and ADC foaming agent.
- *Solid waste treatment* — coal ash and cinder are collected, treated and sold as briquettes to cement factories and fertilizer factories. We have designated landfill sites that have been constructed and operated in compliance with “Standards for Pollution Control on Landfill Sites for Hazardous Waste” and approved by the Pingnan environmental protection authority which we use for solid and chemical waste. See “Regulations — Regulations on Hazardous Chemicals — Standards for Pollution Control on Landfill Sites for Hazardous Waste.”

In addition, we have dedicated personnel overseeing our waste treatment activities, monitoring and conducting regular maintenance on our waste treatment facilities. These personnel include three senior engineers with relevant tertiary education and extensive experience in chemical engineering, each heading a team of qualified engineers and technicians with extensive experience who have been working with us for between ten to 30 years in environmental protection work. They report to our chief executive officer and our Board on a weekly and quarterly basis, respectively. During the Track Record Period, we were in all material respects compliant with all applicable PRC environmental protection laws and regulations. For further description of the regulatory requirements on waste treatment, see “Regulations — Regulations on Environmental Protection.”

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The chemical manufacturing operations that we engage in are subject to various regulations and strict governmental supervision in relation to environmental protection in the PRC. See “Regulations” in this prospectus for details of the various licenses and permits that we must obtain for our operations.

Our operation and environmental protection measures are subject to regular reviews by relevant environmental protection authorities. Our wastewater treatment facilities have online monitoring systems which allow environmental authorities to monitor the status of our treated wastewater. The environmental authorities also conduct quarterly or half-yearly sample testing on our treated gas and solid waste. During the Track Record Period, we did not receive any adverse findings or recommendations for improvement in relation to such monitoring and reviews.

Pursuant to the Tentative Measures on Clean Production Review, any enterprise that uses or discharges toxic and hazardous materials in its manufacturing process shall be subject to a mandatory review of clean production measures, and a list of selected enterprises subject to such mandatory review is issued by the provincial environmental protection authorities together with other relevant provincial authorities every year. See “Regulations — Regulations on Environmental Protection — Tentative Measures on Clean Production Review.” Fujian Rongping was included in such a review list in 2003, followed by Fuzhou Yihua in 2005 and Fujian Rongchang in 2006. The procedures of the mandatory reviews include preparation, pre-review, review and formulation of an implementation plan, drafting of the review report by the selected enterprise and filing it with the relevant governmental authorities for evaluation and examination. Fujian Rongchang and Fuzhou Yihua completed their respective reviews, evaluations and examinations and obtained approvals issued by the Fujian Provincial Environmental Protection Bureau in April 2009 and December 2006, respectively. Fuzhou Yihua was included in the 2011 review list issued by the relevant authorities in August 2011 and accordingly, we expect to complete Fuzhou Yihua’s review procedures and file its second review report with the relevant governmental authorities for evaluation and examination before the end of 2011. Fujian Rongping completed its second round of reviews in 2010 and filed its second review report with the relevant governmental authorities. Preliminary approval was issued to Fujian Rongping in January 2011, with final approval currently still subject to the evaluation and examination process of the relevant governmental authorities.

Following the conclusion of a mandatory review and until the beginning of the next review, the provincial environmental protection authorities do not maintain ongoing clean production reviews and inspections on the relevant enterprises.

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For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, our expenses incurred in relation to production safety and environmental protection compliance which were charged to cost of sales and administrative expenses were as follows:

	For the year ended December 31,			For the six months ended
	2008	2009	2010	June 30, 2011
	(RMB in thousands)			
Safety related equipment maintenance .....	5,804	6,159	9,457	4,003
Safety related costs of equipment spare parts .....	19,682	17,705	16,672	8,855
Environmental protection compliance <sup>(1)</sup> .....	846	1,166	1,734	984
Others <sup>(2)</sup> .....	1,310	1,639	969	598
<b>Total</b> .....	<b><u>27,642</u></b>	<b><u>26,669</u></b>	<b><u>28,832</u></b>	<b><u>14,440</u></b>

*Notes:*

- (1) Includes, among others, costs in relation to the control of discharges and maintenance of environmental protection measures.
- (2) Include, among others, safety related staff training and wages.

In addition, for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, our capital expenditure on environmental protection compliance was RMB14.7 million, RMB3.6 million, RMB7.1 million and RMB3.1 million, respectively. During the same periods, expenses incurred in relation to production safety and environmental protection compliance included in administrative expenses accounted for 18.6%, 19.5%, 4.6% and 5.4% of total administrative expenses, respectively. The decrease of such expenses as a percentage to total administrative expenses since 2010 was a result of the reclassification of certain expenses to cost of sales, which we believe is a better reflection of our operations.

### Discharge levels

According to applicable PRC laws and regulations, our discharge of pollutants must comply with the waste discharge permits and emission standards promulgated by the government authorities, such as the Integrated Wastewater Discharge Standard (《污水綜合排放標準》), the Integrated Emission Standard of Air Pollutants (《大氣污染物綜合排放標準》), the Emission Standard of Air Pollutants for Coal-Burning Oil-Burning Gas-Fired Boiler (《鍋爐大氣污染物排放標準》), the Standard for Pollution Control on the Security Landfill Site for Hazardous Wastes (《危險廢物填埋污染控制標準》) and the Standard of Noise at Boundary of Industrial Enterprises (《工業企業廠界噪聲標準》). We have obtained a clearance letter from each competent environmental protection authority in the regions where we operate, which confirms, among other things, that each of our PRC subsidiaries has been in compliance with the applicable national discharge standards.

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During the Track Record Period, the level of key pollutants discharged by us and the regulatory permitted level of such discharges were as follows:

### *Fujian Rongchang*

#### *Discharge*

	For the year ended December 31,						For the six months ended June 30, 2011	
	2008		2009		2010		Permitted discharge <sup>(2)</sup>	Actual discharge
	Permitted discharge <sup>(2)</sup>	Actual discharge	Permitted discharge <sup>(2)</sup>	Actual discharge	Permitted discharge <sup>(2)</sup>	Actual discharge		
	(tons)							
<b>Waste water:</b>								
Total	2,327,760	1,500,000	2,327,760	2,064,000	2,327,760	2,100,000	2,967,000	788,400
COD	267.06	85.45	267.06	135.87	267.06	240.34	397.67	85.45
Ammonia	70.765	19.08	70.765	24.39	70.765	44.27	110.67	11.23
<b>Air pollutant:</b>								
Smoke	102.24	27.70	102.24	79.64	102.24	79.73	232.53	40.60
SO <sub>2</sub>	589.99	111.58	589.99	573.90	589.99	498.29	830.48	233.79
<b>Solid waste:</b>								
Slag	0	(Note 1)	0	(Note 1)	0	(Note 1)	0	(Note 1)
Carbide	0	(Note 1)	0	(Note 1)	0	(Note 1)	0	(Note 1)

#### *Notes:*

- Effectively no discharge as they are fully reutilized, including for sale as briquettes to cement and fertilizer factories.
- Permitted discharge volume is determined by the relevant environmental protection authority based on our production scale. Permitted discharge volume for the six months ended June 30, 2011 in the table above refers to the permitted discharge volume for the full year of 2011.

#### *Concentration*

	For the year ended December 31,						For the six months ended June 30, 2011	
	2008		2009		2010		Emission standard <sup>(1)</sup>	Interval or average of actual emission range
	Emission standard <sup>(1)</sup>	Interval or average of actual emission range	Emission standard <sup>(1)</sup>	Interval or average of actual emission range	Emission standard <sup>(1)</sup>	Interval or average of actual emission range		
<b>Waste water:</b>								
COD	≤135 mg/L	56.97 mg/L	≤135 mg/L	65.83 mg/L	≤135 mg/L	67.80 mg/L	≤135 mg/L	67.80 mg/L
Ammonia	≤15 mg/L	12.72 mg/L	≤15 mg/L	11.82 mg/L	≤15 mg/L	11.40 mg/L	≤15 mg/L	13.00 mg/L
Suspended solids	≤90 mg/L	50 mg/L	≤90 mg/L	50 mg/L	≤90 mg/L	50 mg/L	≤90 mg/L	14 mg/L
<b>Air pollutant:</b>								
Smoke	≤250 mg/m <sup>3</sup>	172.20 mg/m <sup>3</sup>	≤250 mg/m <sup>3</sup>	125.44 mg/m <sup>3</sup>	≤250 mg/m <sup>3</sup>	121.85 mg/m <sup>3</sup>	≤250 mg/m <sup>3</sup>	163.35 mg/m <sup>3</sup>
SO <sub>2</sub>	≤900 mg/m <sup>3</sup>	693.52 mg/m <sup>3</sup>	≤900 mg/m <sup>3</sup>	482.60 mg/m <sup>3</sup>	≤900 mg/m <sup>3</sup>	662.50 mg/m <sup>3</sup>	≤900 mg/m <sup>3</sup>	582.50 mg/m <sup>3</sup>

#### *Note:*

- Emission standard is determined by national standards provided under relevant PRC environmental protection laws and regulations.

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### Fujian Rongping

#### Discharge

	For the year ended December 31,						For the six months ended June 30, 2011	
	2008		2009		2010		Permitted discharge <sup>(2)</sup>	Actual discharge
	Permitted discharge <sup>(2)</sup>	Actual discharge	Permitted discharge <sup>(2)</sup>	Actual discharge	Permitted discharge <sup>(2)</sup>	Actual discharge		
	(tons)							
<b>Waste water:</b>								
Total .....	466,600	374,803	466,600	404,352	466,600	404,336	466,600	233,280
COD .....	7.185	6.559	7.185	7.076	7.185	6.179	7.185	2.566
Hexavalent chromium .....	0.16	0.029	0.16	0.028	0.16	0.052	0.16	0.015
Total chromium ...	0.47	0.078	0.47	0.075	0.47	0.129	0.47	0.034
<b>Air pollutant:</b>								
Smoke .....	1.016	1.012	1.016	1.015	1.016	1.007	1.016	0.490
Dust .....	3.168	2.545	3.168	2.746	3.168	2.721	3.168	1.384
SO <sub>2</sub> .....	55.64	41.57	55.64	39.81	55.64	50.32	55.64	26.95
<b>Solid waste:</b>								
Slag .....	870	(Note 1)	870	(Note 1)	870	(Note 1)	870	(Note 1)
Chromium waste ..	261	232	261	258	261	247	261	125.47

#### Notes:

- Effectively no discharge as they are fully reutilized, including for sale as briquettes to cement and fertilizer factories.
- Permitted discharge volume is determined by the relevant environmental protection authority based on our production scale. Permitted discharge volume for the six months ended June 30, 2011 in the table above refers to the permitted discharge volume for the full year of 2011.

#### Concentration

	For the year ended December 31,						For the six months ended June 30, 2011	
	2008		2009		2010		Emission standard <sup>(1)</sup>	Interval or average of actual emission range
	Emission standard <sup>(1)</sup>	Interval or average of actual emission range	Emission standard <sup>(1)</sup>	Interval or average of actual emission range	Emission standard <sup>(1)</sup>	Interval or average of actual emission range		
<b>Waste water:</b>								
pH .....	6-9	7.54	6-9	7.81	6-9	6.88	6-9	6.87
Hexavalent chromium ..	≤0.5 mg/L	0.078 mg/L	≤0.5 mg/L	0.069 mg/L	≤0.5 mg/L	0.130 mg/L	≤0.5 mg/L	0.070 mg/L
Total chromium .....	≤1.5 mg/L	0.201 mg/L	≤1.5 mg/L	0.186 mg/L	≤1.5 mg/L	0.320 mg/L	≤1.5 mg/L	0.210 mg/L
<b>Air pollutant:</b>								
Smoke .....	≤200 mg/m <sup>3</sup>	56.8 mg/m <sup>3</sup>	≤200 mg/m <sup>3</sup>	17.3 mg/m <sup>3</sup>	≤200 mg/m <sup>3</sup>	73.7 mg/m <sup>3</sup>	≤200 mg/m <sup>3</sup>	89.4 mg/m <sup>3</sup>
SO <sub>2</sub> .....	≤900 mg/m <sup>3</sup>	24.0 mg/m <sup>3</sup>	≤900 mg/m <sup>3</sup>	39.0 mg/m <sup>3</sup>	≤900 mg/m <sup>3</sup>	481.0 mg/m <sup>3</sup>	≤900 mg/m <sup>3</sup>	173.4 mg/m <sup>3</sup>
Chlorine .....	≤65 mg/m <sup>3</sup>	14.18 mg/m <sup>3</sup>	≤65 mg/m <sup>3</sup>	9.60 mg/m <sup>3</sup>	≤65 mg/m <sup>3</sup>	2.61 mg/m <sup>3</sup>	≤65 mg/m <sup>3</sup>	6.88 mg/m <sup>3</sup>
<b>Solid waste:</b>								
pH .....	7.0-12.0	7.5	7.0-12.0	7.6	7.0-12.0	7.3	7.0-12.0	7.5
Hexavalent chromium ..	<2.5 mg/L	0.42 mg/L	<2.5 mg/L	0.59 mg/L	<2.5 mg/L	0.53 mg/L	<2.5 mg/L	0.39 mg/L
Total chromium .....	<12 mg/L	0.61 mg/L	<12 mg/L	0.98 mg/L	<12 mg/L	0.75 mg/L	<12 mg/L	0.70 mg/L

#### Note:

- Emission standard is determined by national standards provided under relevant PRC environmental protection laws and regulations.

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### Fuzhou Yihua

#### Discharge

	For the year ended December 31,						For the six months ended June 30, 2011	
	2008		2009		2010		Permitted discharge <sup>(2)</sup>	Actual discharge
	Permitted discharge <sup>(2)</sup>	Actual discharge	Permitted discharge <sup>(2)</sup>	Actual discharge	Permitted discharge <sup>(2)</sup>	Actual discharge		
	(tons)							
<b>Waste water:</b>								
Total .....	471,500	466,300	471,500	438,680	471,500	459,320	471,500	214,520
COD .....	32.1	25.7	32.1	30.7	32.1	18.6	32.1	14.65
Ammonia .....	7.07	1.10	7.07	1.40	7.07	1.60	7.07	0.22
Hexavalent chromium .....	0.04	<0.01	0.04	<0.01	0.04	<0.01	0.04	<0.01
Suspended solids ..	24	21.7	24	23.9	24	11.9	24	3.4
<b>Air pollutant:</b>								
Smoke .....	38.8	1.7	38.8	5.4	38.8	7.4	38.8	4.8
Dust .....	30.0	1.9	30.0	1.9	30.0	1.9	30.0	0.9
SO <sub>2</sub> .....	47.4	8.6	37.4	4.6	26.2	3.0	26.2	2.6
<b>Solid waste:</b>								
Slag .....	0	(Note 1)	0	(Note 1)	0	(Note 1)	0	(Note 1)
Carbide .....	0	(Note 1)	0	(Note 1)	0	(Note 1)	0	(Note 1)

#### Notes:

- Effectively no discharge as they are fully reutilized, including for sale as briquettes to cement and fertilizer factories.
- Permitted discharge volume is determined by the relevant environmental protection authority based on our production scale. Permitted discharge volume for the six months ended June 30, 2011 in the table above refers to the permitted discharge volume for the full year of 2011.

#### Concentration

	For the year ended December 31,						For the six months ended June 30, 2011	
	2008		2009		2010		Emission standard <sup>(2)</sup>	Emission range
	Interval or average of actual	Emission standard <sup>(2)</sup>	Interval or average of actual	Emission standard <sup>(2)</sup>	Interval or average of actual	Emission standard <sup>(2)</sup>		
<b>Waste water:</b>								
COD .....	≤100 mg/L	50-60 mg/L	≤100 mg/L	50-75mg/L	≤100 mg/L	35-50 mg/L	≤100 mg/L	35-60 mg/L
Ammonia .....	≤15 mg/L	≤5 mg/L	≤15 mg/L	≤5mg/L	≤15 mg/L	≤5 mg/L	≤15 mg/L	≤5 mg/L
Suspended solids .....	≤70 mg/L	40-60 mg/L	≤70 mg/L	40-50 mg/L	≤70 mg/L	20-40 mg/L	≤70 mg/L	20-50 mg/L
pH .....	6.0-9.0	6.7-8.6	6.0-9.0	7.0-8.5	6.0-9.0	7.0-8.3	6.0-9.0	6.5-8.4
Hexavalent chromium .....	≤0.5 mg/L	<0.02 mg/L	≤0.5 mg/L	<0.02 mg/L	≤0.5 mg/L	<0.02 mg/L	≤0.5 mg/L	≤0.02 mg/L
<b>Air pollutant:</b>								
Smoke .....	≤200 mg/m <sup>3</sup>	(Note 1)	≤200 mg/m <sup>3</sup>	(Note 1)	≤200 mg/m <sup>3</sup>	(Note 1)	≤200 mg/m <sup>3</sup>	(Note 1)
SO <sub>2</sub> .....	≤900 mg/m <sup>3</sup>	(Note 1)	≤900 mg/m <sup>3</sup>	(Note 1)	≤900 mg/m <sup>3</sup>	(Note 1)	≤900 mg/m <sup>3</sup>	(Note 1)

#### Notes:

- Subject to regular monitoring by the local environmental protection authority, no violation of emission standard has been recorded during the Track Record Period.
- Emission standard is determined by national standards provided under relevant PRC environmental protection laws and regulations.

As demonstrated by the preceding tables, the level of pollutant discharge and concentration of our PRC subsidiaries fluctuated during the Track Record Period, but remained within regulatory limits. Fluctuations in the level of pollutant discharge and concentration are attributed to changes and adjustments in (i) our production scale and products produced, (ii) the type or amount of raw materials used, and (iii) our production technology.

### **Environmental Litigation**

In 2002, Zhang Changjian and 1,720 other residents (the “Plaintiffs”) in Pingnan County, which is adjacent to the facilities of one of our operating subsidiaries 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 harm caused by environmental pollution. At the time this case was initiated, Fujian Pingnan was a state-owned enterprise under different management with different directors, managers and legal representatives. Fujian Rongping succeeded Fujian Pingnan’s defendant position prior to the acquisition by Mr. Liem of a controlling interest in Fujian Rongping.

#### *The allegations and the counter-arguments*

The Plaintiffs alleged that Fujian Rongping polluted the surrounding area with the release of chemicals including sulfur dioxide, chlorine and chromium. The Plaintiffs alleged that polluted water, air emissions and other wastes from Fujian Rongping exceeded the applicable standards and caused harm to the environment and human health. The Plaintiffs further alleged that local residents and villagers frequently experienced dizziness, abdominal pains, nausea, congestion, chest pains and skin irritation, and suffered a substantial increase in the incidence of cancer. The Plaintiffs also alleged that emissions of chlorine gas caused the death of large stands of trees, bamboo, orchards, crops, fish and shrimp. The Plaintiffs sought the following remedies: (i) immediate cessation of Fujian Rongping’s legal violations; (ii) compensation for losses of crops, trees and other vegetation in the amount of RMB10,331,440; (iii) compensation to the Plaintiffs for psychological harm in the amount of RMB3,203,200; and (iv) clean up of the wastes on the factory grounds and in a nearby disposal field.

Fujian Rongping argued that it was not the source of the alleged environmental harm and that any harm was caused by a nearby factory that relied primarily on coal to manufacture bricks. The factory, which was operated by an independent third party, had shut down its operations before the case was heard and Fujian Rongping was unable to locate the owner of the factory despite efforts to do so.

#### *Decision of the trial court*

According to the PRC evidence rules of civil procedure, in civil actions involving environmental pollution damages, the defendant has the burden of presenting sufficient evidence to prove there is no direct causation between its activity and the alleged damages. The Ningde Court found that Fujian Rongping did not present sufficient evidence to prove that there was no direct causation between Fujian Rongping’s operations and the environmental pollution damages alleged by the Plaintiffs. Accordingly, on April 15, 2005, Ningde Court held that Fujian Rongping must (i) immediately stop the violations against the Plaintiffs, (ii) compensate the Plaintiffs in the amount of RMB249,763 for damage to trees, orchards, bamboo and other agricultural land within ten days of the decision becoming effective, (iii) within six months, take measures to clean up the industrial waste on the factory grounds and at the nearby disposal field; and (iv) pay court fees and costs. The other claims of the Plaintiffs were rejected.

*The final judgment by the high court*

Both Fujian Rongping and the Plaintiffs appealed to the High People's Court of Fujian Province ("Fujian High Court"). Like the Ningde Court, the Fujian High Court also found that Fujian Rongping did not present sufficient evidence to prove that there was no direct causation between Fujian Rongping's operations and the environmental pollution damages alleged by the Plaintiffs. Accordingly, on November 16, 2005, the Fujian High Court issued a judgment in which the court decided that Fujian Rongping must (i) immediately stop the violations against the Plaintiffs, (ii) within 10 days of effective date of the decision compensate the Plaintiffs in the amount of RMB684,178 for damage to trees, orchards, bamboo, other crops and other losses, (iii) within one year of the effective date of the decision clean up and dispose all industrial waste on the factory's grounds and in the nearby disposal field. Fujian Rongping settled the damages payable in full on November 23, 2005.

Our PRC legal adviser, Zhong Lun Law Firm, has confirmed that the judgment of the Fujian High Court is considered final under PRC law. According to the statute of limitations set forth in the PRC rules of civil procedures then in force, the Plaintiffs were entitled to request for a retrial by the Fujian High Court or the People's Supreme Court within two years after the final judgment was made by the Fujian High Court. However, the Plaintiffs did not initiate any further suit or formal proceeding during such time.

Subsequent to this case, we have not been involved in any environmental pollution-related actions or proceedings.

*Subsequent measures*

Although we believe Fujian Rongping was not the source of the environmental pollution damages described in the allegations, Fujian Rongping has duly performed its legal duties as required by the final judgment. Measures taken included removing industrial waste (including chromium waste) from factory grounds and the nearby disposal field for further treatment and disposal within the year following the date of the final judgment. In addition, we began the construction of a designated landfill site in 2004, in accordance with PRC laws and regulations, for the disposal of chromium waste. The constructed landfill site was approved for operation by the Pingnan environmental protection authority on December 12, 2007. On November 10, 2010, the Pingnan environmental protection authority issued a confirmation confirming that on December 2, 2008, a site inspection was conducted by the authority, government officials and village representatives who were all satisfied that the previously existing disposal field had been cleaned up and cleared of industrial waste, and the field was sealed in January 2009. Since the final judgment was issued, we have not received further complaints from the local villagers. As advised by our PRC legal adviser, Zhong Lun Law Firm, we have satisfied our duties in full under the final judgment of the Fujian High Court.

In addition, since Mr. Liem acquired a controlling interest in Fujian Rongping, we have carried out a number of additional actions to further improve our environmental protection control measures, not only to enhance our overall production management but also to build up factual evidence to defend against any similar allegations in the future. For example, we have voluntarily connected our production facilities at Fuzhou Yihua, Fujian Rongping, and Fujian Rongchang to the local environmental protection bureaus through digital equipment and cables in October 2003, December 2003, and May 2008, respectively, so that the conditions of waste water can be monitored on a real-time basis by the regulatory authorities. We believe we were the first company in the region where we operated to take such voluntary action. In



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addition, we have built a designated landfill site for chemical waste that meets national standards. As a result of our efforts, Fujian Rongping obtained ISO14001:2004 certification for its environmental management system in 2008. We are also in the process of obtaining ISO14001:2004 certification for our two other operating subsidiaries.

### *Confirmation by regulatory authorities*

We obtained a clearance letter from each of the relevant environmental protection regulatory authorities in the counties where we operate, namely, Shunchang County Environmental Protection Bureau for Fujian Rongchang, Pingnan County Environmental Protection Bureau for Fujian Rongping, and Yongtai County Environmental Protection Bureau for Fuzhou Yihua, which are the competent authorities for issuing such clearance letters, in August 2011, respectively, confirming, among other things, that since its respective incorporation, each of our three operating subsidiaries (i) has been in compliance with the applicable environmental protection laws and regulations, (ii) has obtained necessary environmental protection related permits and licenses, (iii) has paid all waste discharge fees in full and in a timely manner, (iv) has duly completed environmental impact assessment procedures for each project construction, (v) has passed all verification inspections, (vi) has constructed its environmental protection facilities as part of the overall production facilities, (vii) has passed all examinations on its production facilities' environmental equipments, which are running under normal conditions, and (viii) has satisfied the applicable national discharge standards.

In addition, we obtained clearance letters from the Nanping City Environmental Protection Bureau, Ningde City Environmental Protection Bureau and the Fuzhou City Environmental Protection Bureau in April 2011, May 2011 and May 2011, respectively, confirming that after an environmental review of our three operating subsidiaries' operations since 2008, each of Fujian Rongchang, Fujian Rongping and Fuzhou Yihua had been in compliance with applicable environmental protection laws and regulations.

Further, in June 2011, we obtained a confirmation letter from the Fujian Provincial Environmental Monitoring Central Unit (福建省環境監察總隊), the enforcement arm of the Fujian Provincial Department of Environmental Protection, confirming that each of Fujian Rongchang, Fujian Rongping, and Fuzhou Yihua has been in compliance with the applicable environmental protection laws and regulations. As advised by our PRC legal adviser, Zhong Lun Law firm, Fujian Provincial Environmental Monitoring Central Unit is a direct unit of the Fujian Provincial Department of Environmental Protection authorized to act on behalf of the Fujian Provincial Department of Environmental Protection under relevant PRC regulations. The unit is vested with the following responsibilities: (1) monitoring entities and persons in violation of environmental laws and regulations; (2) collection of fees in relation to pollutant disposals; and (3) enforcing relevant environmental laws and regulations by imposing penalties on violations of environmental laws and regulations, and hence, is the competent and appropriate provincial level government authority to issue such a confirmation letter.

## COMPETITION

We face significant competition from other domestic and international players in our industry. There were approximately 20 principal sodium chlorate producers in China, with the top five companies holding approximately 78.5% of the market share by revenue in China in 2010. According to Frost & Sullivan, we were the second largest sodium chlorate producer in China in 2010, accounting for a domestic market share

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of approximately 21.3% by revenue. We compete with a number of other large domestic producers of sodium chlorate, such as Inner Mongolia Lantai Industrial Co. Ltd. (21.4% by revenue), Continental Hope Group (13.2% by revenue) and West Hope Group (11.3% by revenue). In the Chinese hydrogen peroxide market, there were approximately 60 principal producers, with the top 10 companies accounting for a market share of approximately 40.6% by revenue in 2010. The key competitors include Hunan Zhicheng Chemicals Industry Co., Ltd. (8.0% by revenue) and Arkema (Shanghai) Hydrogen Peroxide Solution Co., Ltd. (5.9% by revenue). We ranked tenth in the Chinese hydrogen peroxide market in 2010 by revenue, accounting for a market share of 2.4%. As for the Chinese ADC foaming agent market, there are approximately 20 players with the top five companies accounting for a market share of approximately 76.4% by revenue in 2010. We were the third largest market player in the Chinese ADC foaming agent market in 2010 by revenue, accounting for 17.1% market share. Our key competitors in the Chinese ADC foaming agent market are Jiangxi Electrochemical Finechem Limited Liability Company (19.4% by revenue) and Jiangsu SoPo Chemical Shareholding Co., Ltd. (19.1% by revenue). We generally compete for domestic customers on product quality, price, supply lead-time, supply stability and reliability. There are also high barriers to entry into industrial chemical production, including industry experience and track record, capital intensity, and relationship with large customers.

The international markets are dominated by several large international chemical producers, such as Canexus, Eka Chemicals and Kemira. We believe that these large international producers have certain advantages in terms of access to financial resources and industry expertise. We compete against international competitors on product quality, supply lead-time and stability. Japan is our major export market and we are able to distinguish ourselves from our competitors through shorter supply lead-time due to our favorable geographic location. We are also committed to produce high quality products in order to satisfy stringent quality requirements by our export customers, particularly in Japan.

See “Industry Overview” in this prospectus for details of the competition that we face in the markets that we operate in.

## QUALITY AND SAFETY CONTROL AND COMPLIANCE

### Quality Control

We place substantial emphasis on quality control and we implement stringent quality control measures in the production of our products. We received the quality management system certificates of ISO9001:2008 for Fuzhou Yihua, Fujian Rongchang and Fujian Rongping in 2008, 2009 and 2009, respectively. We received the environmental management system certificate of ISO14001:2004 for Fujian Rongping in 2008 and plan to apply for the same environmental management system certificate for Fujian Rongchang and Fuzhou Yihua. We aim to enhance customer satisfaction through application of quality control measures, including the continual improvement of our production processes and the assurance of conformity to customer and applicable regulatory requirements. As of June 30, 2011, we employed a total of 87 full-time quality control personnel in our three production facilities.

We have formulated a series of internal policies to ensure thorough and strict quality control during the various stages of our production, including market research, raw material purchase, production process, monitoring controls, process testing, sales and after sales services. Sample testing of raw materials is conducted to ensure that the quality of raw materials meets our required standard. We also inspect and sample test our products at different stages of the production process to ensure product quality.

**Production Safety**

Production safety is a critical component of our business operations. We have established a production safety committee, which is headed by our chief executive officer, to oversee the development and implementation of safety measures at our production facilities. We have also prepared and developed production safety manuals, designed to formulate and standardize operating procedures which have been approved by the Fujian Provincial Administration of Work Safety. In addition, we provide on-the-job training to employees to educate them regarding the required safety standards and provide regular health checks.

Our chemical production business involves the handling, storage and use of hazardous, flammable and explosive materials. Improper handling of these materials can result in serious health effects, personal injury or death. During the Track Record Period, there had not been any major work accidents causing material health or safety issues and we had not experienced any material incident of improper handling of hazardous chemicals. In the past, we have not encountered any material employee complaints in relation to production safety or any employee medical claims in relation to job-related injuries.

The production of potassium chlorate generates chromium-containing wastes. Our chromium treatment processes are in compliance with applicable regulatory standards in all material respects. The processed solid wastes have been subjected to testing by the relevant regulatory authorities and are disposed of in landfill sites permitted to receive such wastes. See “Risk Factors — Risks Relating to Our Business — We use, generate and dispose of hazardous chemicals which may subject us to liabilities.”

During the Track Record Period, we materially complied with all relevant PRC health and safety laws and regulations and have not been subject to any material fine, penalty or citation related to health and safety matters. As advised by our PRC legal adviser, as of the Latest Practicable Date, all relevant approvals, licenses and permits in relation to the safety control of our Group were valid and so far as our PRC legal adviser is aware, there is no legal impediment for renewal of such approvals, licenses and permits. We intend to continue to strengthen our health and safety measures to reduce potential future risks and achieve compliance with all applicable laws, regulations and standards. However, we cannot assure you that we will not incur material costs or liabilities with respect to safety matters in the future. See “Risk Factors — Risks Relating to Our Business — We may be subject to liabilities in connection with accidents arising from our operations.”

We have in place designated warehouses and storage tanks for the storage of raw materials and semi-finished goods that are hazardous substances. These warehouses and storage tanks are equipped with safety and fire fighting systems and equipment in accordance with relevant PRC laws and regulations. We also have a designated materials management department overseeing the strict management of our material storage activities, including maintaining a ledger on raw materials and semi-finished goods. Our recent hydrogen peroxide production capacity expansion at Fujian Rongping (see “Business — Expansion Plans”) required additional working solution, a semi-finished good, for the production of hydrogen peroxide. Working solution for hydrogen peroxide production is not classified as a hazardous substance regulated under relevant PRC regulations regarding the handling of hazardous chemicals. The working solution is a medium for the production of hydrogen peroxide. It is contained within our production system, in our production pipeline and equipment, and is continuously utilized for production. There is no separate, external and idle storage of the working solution and, thus, the additional working solution acquired for our recent production capacity expansion of hydrogen peroxide at Fujian Rongping did not result in excess

storage of hazardous substances, as it did not affect our storage levels. As of June 30, 2011, the storage levels of our inventory, including hazardous substances, remained satisfactory and were within our storage capacity.

For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, our expenses incurred in relation to production safety and environmental protection compliance amounted to approximately RMB27.6 million, RMB26.7 million, RMB28.8 million and RMB14.4 million, respectively. See breakdown of such expenses in “— Environmental Protection — Overview.”

### **Compliance Matters**

As of the Latest Practicable Date, we had obtained all material necessary approvals, permits and licenses under applicable laws and regulations for our operations. During the Track Record Period, we encountered the following, which we believe are non-material, PRC regulatory compliance matters:

#### *Caustic soda trial production at Fujian Rongchang*

We began trial production of our expanded capacity at Fujian Rongchang for caustic soda on November 2, 2010. See “— Expansion Plans.” However, the Nanping environmental protection authority only issued the requisite approval to Fujian Rongchang for trial production on November 26, 2010 after site inspection on November 25, 2010. See “Regulations — Regulations on Environmental Protection — The Environmental Protection Law.” Our PRC legal adviser, Zhong Lun Law Firm, has confirmed that, given the short duration and that the Nanping environmental protection authority had inspected the site, after we began trial production, and not raised any objection before providing its approval, it is highly unlikely that any legal or administrative penalties would be imposed upon Fujian Rongchang for its early commencement of trial production and that there would be any material adverse effect on the business operations of Fujian Rongchang due to this incident.

#### *Hydrogen peroxide trial production at Fujian Rongping*

We began trial production of our expanded capacity at Fujian Rongping for hydrogen peroxide on December 1, 2010. See “— Expansion Plans.” However, the Pingnan environmental protection authority and Ningde work safety authority only issued the requisite approval and filing registration to Fujian Rongping for trial production on January 12, 2011 and January 17, 2011, respectively. See “Regulations — Regulations on Environmental Protection — The Environmental Protection Law” and “Regulations — Regulations on Hazardous Chemicals — Measures for Implementation of Safety Licensing for Hazardous Chemical Construction Projects.” We subsequently and voluntarily reported our early commencement of trial production to these authorities. The Pingnan environmental protection authority and Ningde work safety authority issued confirmation letters on March 28, 2011 and March 29, 2011, respectively, confirming that, given the short duration and that such early commencement of trial production did not cause any environmental or safety accidents, no administrative penalties would be imposed upon Fujian Rongping for its early commencement of trial production of hydrogen peroxide.

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### *Discrepancies in AIC filings*

As of the Latest Practicable Date, we were in material compliance with the filing requirements of financial information with relevant local administrative authorities for industry and commerce (the “AIC”) for annual inspection purposes under relevant PRC laws. In the past, however, there had been discrepancies in our PRC subsidiaries’ filings with the AIC as compared to our financial statements.

We understand that the AIC’s major role is to regulate the administrative behavior of an enterprise rather than to inspect tax or other financial obligations. Since information filed with the AIC was open and accessible to the public, we were concerned that our competitors would be able to readily gain access to our financial information and take measures that could adversely affect our ability to compete and our relationship with our customers. As such, prior to 2011, the operating results filed by our PRC subsidiaries with the AIC were typically more conservative and less in scope. Our PRC legal advisor, Zhong Lun Law Firm, indicates that based on its understanding of current PRC practices, there are certain discrepancies in some PRC companies’ filings with the local AICs as against their financial statements whereby such filings are very simple and short, and that such practices are not uncommon in the PRC and our case is not unique in this respect. As our financial information submitted to the AIC was prepared without any supporting sub-ledgers, it is impracticable to present the nature of the discrepancies in detail in this prospectus. We confirm that the financial information contained in the Accountant’s Report in Appendix I to this prospectus was prepared based on the financial statements submitted for tax filing purposes.

Our PRC subsidiaries have since made AIC filings that are consistent with their financial statements from 2011, and have updated their previous filings to ensure such consistency in March 2011. In addition, we will not continue the practice of filing inconsistent information in future AIC filings. As advised by our PRC legal adviser, Zhong Lun Law Firm, according to applicable PRC regulations, an enterprise that conceals actual fact and practices fraud during annual inspections shall be ordered to make corrections within a specified time limit by the relevant enterprise registration authority. If such an enterprise is a company, a fine of not less than RMB10,000 and not more than RMB50,000 shall be imposed. Given that the update of the previous filings was done on a voluntary basis and our PRC subsidiaries had not received any notice or demands from the AIC regarding the previous filings, according to our PRC legal adviser, Zhong Lun Law Firm, the possibility that such past non-compliance of our PRC subsidiaries may be challenged by the relevant AIC is very remote.

**AWARDS AND RECOGNITION**

During the Track Record Period, we received the following awards and recognition:

2008 Fujian Rongchang was awarded the title of “2007 Enterprise with Excellent Credit Standing” (“2007年度南平市守合同重信用企業”) by the Nanping Administration for Industry and Commerce (南平市工商行政管理局), for maintaining a sound contract management system, which includes, among others, recording contracts in writing and punctually performing all contractual obligations.

The Pingnan Hydrogen Peroxide Production Project (屏南雙氧水生產項目) undertaken by Fujian Rongping was named one of the 2008 Provincial Key Projects (2008年度省重點項目) by the Fujian provincial government, after the review by the Provincial Development Planning Committee (省發展計劃委員會). This project is one of the major infrastructure projects involving energy conservation and recycling technology.

The environmental management system of Fujian Rongping was awarded the ISO14001:2004 certificate for its compliance with the relevant ISO standards for the period from November 10, 2008 to November 9, 2011.

The quality management system of Fuzhou Yihua was awarded the Quality Management System Certificate for its compliance with the ISO9001:2008 standard for the period from November 13, 2008 to November 12, 2011.

2009 Fujian Rongping was awarded the title of “2008 Advanced Enterprise in Quality Management” (2008年質量管理先進企業) by Fujian Bureau of Quality and Technical Supervision (福建省質量技術監督局), for implementing the “Premier Achievements Assessment Standards” (《卓越績效評價準則》) and showing significant achievements in quality assurance management.

Fujian Rongping was awarded the title of “Provincial Model Family of Labor” (“省模範職工之家”) by the Fujian General Labor Union (福建省總工會), for strict compliance with laws such as the PRC union law (《工會法》) and the PRC labor law (《勞動法》) and devising a sound labor union to protect the employees’ rights.

The quality management systems of Fujian Rongping and Fujian Rongchang were awarded the Quality Management System Certificate for its compliance with the ISO9001:2008 standard for the periods from April 24, 2009 to April 23, 2012, and January 20, 2009 to January 19, 2012, respectively.

The Shunchang Rongchang Ion Membrane Caustic Soda Technology Improvement Project (順昌榕昌離子膜燒鹼技改項目) undertaken by Fujian Rongchang was named one of the 2009 Provincial Target Projects (2009年度省重點項目) by the Fujian provincial government, after the review by the Provincial Development Planning Committee (省發展計劃委員會). This project was one of the major infrastructure projects in Fujian province involving energy conservation technology.

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Fujian Rongchang was awarded the title of “Second Level Enterprise in Work Safety Standardization” (安全生產標準化二級企業) by the Fujian Administration of Work Safety (福建省安全生產監督管理局), for compliance with the safety standards to the satisfaction of safety inspectors appointed by the Provincial Manufacturing Safety Monitoring Authority (省安全生產監督管理局).

2010 Fujian Rongping was awarded the title of “2009 Advanced Unit in County Key Projects Construction” (2009年度全縣重點項目建設先進集體) by the People’s Government of Pingnan County (中共屏南縣委屏南縣人民政府).

Fujian Rongping and Fuzhou Yihua were awarded the title of “Second Level Enterprise in Work Safety Standardization” (安全生產標準化二級企業) by the Fujian Administration of Work Safety (福建省安全生產監督管理局), for compliance with the safety standards to the satisfaction of safety inspectors appointed by the Provincial Manufacturing Safety Monitoring Authority (省安全生產監督管理局).

Fujian Rongping was awarded the title of “Advanced Member Unit of Fujian Association of Work Safety” (“福建省安全生產管理協會先進會員單位”) by the Fujian Administration Association of Work Safety (福建省安全生產管理協會), for implementing national manufacturing safety policies, laws and regulations, and maintaining a sound manufacturing safety management system.

2011 Fujian Rongchang was awarded the title of “Advanced Enterprise in Energy Conservation of ‘Eleventh Five-year Plan’ (‘十一五’ 節能工作先進企業) by the People’s Government of Nanping City (南平市人民政府).

Fujian Rongchang was awarded the title of “2009-2010 Advanced Unit in Comprehensive Safety Construction” (2009-2010年度綜治平安建設先進單位) by the People’s Government of Shunchang County (中共順昌縣委順昌縣人民政府).

Fujian Rongping was awarded the title of “2010 Advanced Unit in the City’s Key Construction Projects” (2010年度全市重點項目建設先進單位) by Key Construction Project Leadership Group of Ningde City (寧德市重點建設工程領導小組).

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### EMPLOYEES

As of June 30, 2011, we employed a total of 1,314 individuals on a full-time basis at our production plants in the PRC. The following table shows a breakdown of our employees by function:

<u>Employee Type</u>	<u>Number of Employees</u>
Management .....	31
Technicians .....	78
Finance and accounting .....	31
Administration .....	108
Production .....	917
Sales and marketing .....	53
Quality control .....	87
Procurement .....	<u>9</u>
Total .....	<u><u>1,314</u></u>

We believe that our success is attributable in part to our ability to attract, recruit and retain quality employees. To maintain their quality, knowledge and skill levels, we place strong emphasis on providing our employees periodic training, including introductory training for new employees, technical training, professional and management training and health and safety training.

We enter into individual employment contracts with our employees to cover matters such as wages, benefits, and grounds for termination. We generally formulate our employees' remuneration package to include a salary, bonus and allowance elements. Our compensation programs are designed to remunerate our employees based on their performance, measured against other objective criteria we prescribe. We also provide our employees with welfare benefits in accordance with applicable regulations and our internal policies.

With the promulgation of the PRC Labor Contract Law, which became effective on January 1, 2008, more stringent requirements have been imposed on employers in the PRC with respect to employment contracts entered into between an employer and its employees, hiring of temporary employees and dismissal of employees. The labor contracts we entered into with our employees prior to the promulgation of the PRC Labor Contract Law, which are still effective, are subject to the old contract law and relevant rules and regulations. The labor contracts we entered into with our employees after January 1, 2008 were entered into in accordance with the PRC Labor Contract Law. We expect that our labor costs will increase as a result of the implementation of the new PRC Labor Contract Law. However, since the labor costs are a relatively small component of our overall cost structure, we do not expect the PRC Labor Contract Law to have a material impact on our business or results of operations.

#### *Welfare contributions*

In accordance with applicable PRC regulations on social insurance and housing funds, we contribute to social insurance, including pension, medical insurance, unemployment insurance, occupational injuries insurance and maternity insurance, and we are also required to contribute to a housing fund for our



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employees. As of the Latest Practicable Date, Fujian Rongping had an overdue housing fund obligation. 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 a housing fund authority to be approximately RMB1.78 million. Fujian Rongping did not make housing contributions for its employees in the past because enterprises are not compulsively required to make such contributions to housing reserve funds for all employees by the local government in local practice. It was also administratively difficult to register and make such contributions to employees who do not have permanent residence in Fujian or who worked with us temporarily and left after a short period of time, while some employees preferred to receive cash and other benefits in place of housing contributions from their employer. In view of Fujian Rongping's outstanding housing fund contributions, we have made full provision for 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. As of the Latest Practicable Date, we had not received any written reminder letter from any competent governmental authorities. Fujian Rongping has commenced to pay the housing reserve fund for its employees since January 2011. See "Risk Factors — Risks Relating to Our Business — We have not made full contributions to a housing reserve fund and may be subject to fines or penalties." As confirmed by our PRC legal adviser, as of the Latest Practicable Date, other than as described in this prospectus, we had complied with all statutory social insurance obligations applicable to us in all material respects under PRC laws.

## INSURANCE

We maintain insurance policies for all of our properties, manufacturing facilities, plant and machinery, equipment and inventories against damage caused by accidents. Under PRC laws and regulations, we are not required to maintain any insurance in relation to our business operations, such as business interruption insurance, or product liability insurance against claims or liabilities that may arise from products that we have sold. Nevertheless, in 2010, we have acquired safety production liability insurance with an annual coverage limit of RMB143.4 million in aggregate. We do not carry insurance coverage against war or acts of terrorism. We believe that our insurance coverage is in line with industry practice in the PRC. We did not experience any material industrial accidents or any claims under our product liability policies during the Track Record Period.

## REAL PROPERTY

All of our production facilities are situated in Fujian. As of September 30, 2011, the total gross floor area of the production facilities occupied by us was approximately 134,520 m<sup>2</sup>, all of which were owned by us. We have obtained all land use right certificates and building ownership certificates in relation to such production facilities, other than the land use rights certificates of warehouses located in Yongfeng Village, Jingxi Town, Minhou County, and the building ownership certificates for buildings under construction.

Details of our property interests are set out in "Property Valuation Report" in Appendix IV to this prospectus.

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In addition, Fuzhou Yihua leased several premises at Ping An Building No. 88 Wuyi Zhong Road, Taijiang District, Fuzhou City with a gross floor area of 397 m<sup>2</sup> and 1,449 m<sup>2</sup> for a monthly rental of RMB18,262 and RMB65,451, respectively, for office use.

### INTELLECTUAL PROPERTY

We own and use a number of trademarks and designs in connection with our business. For details, see “Statutory and General Information — Further Information About Our Business — Intellectual Property Rights of Our Group” in Appendix VI to this prospectus.

### LEGAL PROCEEDINGS

See “Regulations” to this prospectus for details regarding the laws and regulations that govern our operations. Our PRC legal adviser has advised us that, save as disclosed in this prospectus, as of the Latest Practicable Date, we have complied in all material respects with relevant PRC laws and regulations, and all of our PRC subsidiaries have not been operating their respective business in violation of PRC laws and regulations or in excess of the business scope stated in their respective business license since their establishment.

As of the Latest Practicable Date, we were not aware of any material legal proceedings, claims, disputes, arbitration or administrative proceedings pending or threatening against any member of our Group or any of our Directors that could have a material adverse effect on our financial condition or results of operation. However, we cannot assure you that material legal proceedings, claims, disputes, arbitration or administrative proceedings will not arise in the future. See “Risk Factors — Risks Relating to Our Business — We use, generate and dispose of hazardous chemicals which may subject us to liabilities.”