The following discussion should be read in conjunction with our consolidated financial information together with the accompanying notes. Please see the Accountant's Report in Appendix I to this prospectus. The following discussion contains forward-looking statements that involve risks and uncertainties. Accordingly, you should not place undue reliance on any such statements. Our future results could differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth under the section entitled "Risk Factors" in this prospectus.

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 "Business — 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 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.

BASIS OF PRESENTATION

The Reorganization has been undertaken in preparation for the Global Offering. We have accounted for the Reorganization on the basis of merger accounting for common control combination. Our subsidiaries are fully consolidated from the date of acquisition, incorporation or establishment, being the date on which we obtain control, and continue to be consolidated until the date that such control ceases. Accordingly, our consolidated financial information has been prepared on the basis as if the current group structure resulting from the Reorganization had been in existence throughout the Track Record Period, or since the respective dates when the companies now comprising our Group were acquired, incorporated or established, whichever is later. All significant intra-group transactions and balances have been eliminated on consolidation.

Our consolidated financial information has been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Companies Ordinance. Pursuant to IFRS, our consolidated financial information has been prepared under the historical cost convention. The consolidated financial information is presented in Renminbi unless otherwise indicated.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition and prospects have been, and will continue to be, affected by a number of factors, including:

Continuous economic growth in China

A significant portion of our revenue is derived from China. In 2008, 2009, 2010 and the six months ended June 30, 2011, we derived 86.0%, 88.5%, 83.6% and 84.0%, respectively, from domestic sales. Therefore, economic trends in China have a significant impact on various aspects of our operations, including without limitation, the demand for our products, the price and supply of raw materials as well as the selling and administrative expenses. The rapid growth of China's economy has resulted in both a rise in consumer spending and an acceleration of industrialization. Since our products are primarily used in the paper, textile, water treatment, auto and construction industries in China, our operations will continue to be affected by China's economic growth.

The difficulties affecting the global financial sectors, adverse economic conditions and volatility in the United States, Europe and worldwide credit and financial markets, fluctuations in commodity prices and the general weakness of the global economy between 2008 and 2009 had negatively affected our results of operations and financial condition. Partly due to the impact of the financial crisis, our gross margin decreased slightly to 27.4% in 2009 from 28.3% in 2008, as we had to lower the prices of most of our products as a result of a decrease in the demand; and average selling price for bleaching and disinfectant chemicals decreased by 6.6% to RMB2,239 per ton in 2010 as compared to RMB2,398 per ton in 2009 which reflected the anticipation of lower demand due to the impact of the global financial crisis.

Although the global economy has begun to recover, there is no assurance that such recovery will be sustainable. Another economic downturn could subject our business and financial condition to additional adverse effects. In addition, our operations are also affected by the PRC government's policies in the chemical industries generally as well as the industries to which our suppliers and customers belong. In recent years, the PRC government has implemented a series of measures to promote the use of environmentally friendly materials in all sectors, which has resulted in and, we expect will continue to lead to, an increase in the demand for our products.

Demand in the international markets, especially Japan

Since we also directly sell our products to international markets, our results of operations and financial condition are also affected by demand in the international markets. In 2008, 2009, 2010 and the six months ended June 30, 2011, we derived 14.0%, 11.5%, 16.4% and 16.0%, respectively, of our revenue from direct international sales. Direct sales to Japanese customers constituted 66.6%, 57.7%, 47.3% and 45.8%, respectively, of our direct international sales and 9.3%, 6.6%, 7.7% and 7.3%, respectively, of our total sales in 2008, 2009, 2010 and the six months ended June 30, 2011. Japan is our most important export market mainly because it demonstrates the high quality of our products, thereby enhancing our Company's image among both existing and potential customers, particularly in other international markets into which we seek to expand further. Going forward, we expect our sales in Japan will continue to increase, although we intend to manage such increase to keep sales in Japan at a relatively stable proportion of our total sales. During the Track Record Period, we increased our market share in Japan by both delivering quality products and customer services and implementing competitive pricing. Our products sold in Japan were priced lower than those sold domestically. As a result, an increase in sales in Japan may lower our average selling price and profit margins. For example, our average selling price for bleaching and disinfectant chemicals decreased by 6.6% to RMB2,239 per ton in 2010 as compared to RMB2,398 per ton in 2009, partly due to an increase in the export of sodium chlorate to Japan. As we believe the high quality of our products have been now widely recognized and accepted by our Japanese customers due to our sales and marketing efforts in recent years, we intend to closely monitor the market conditions in Japan and adjust our pricing strategy in Japan accordingly. For more information regarding the effect on our business operations of the earthquake and tsunami that occurred on March 11, 2011, which affected northeastern Japan, and related events such as the Fukushima nuclear plant explosions, see "Business — Sales and Marketing — Sales — March 2011 earthquake in Japan."

Production capacity and utilization rate

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 average utilization rates of our three production plants in 2008, 2009, 2010 and for the six months ended June 30, 2011 were 81%, 90%, 92% and 90%, respectively. The increases in our production capacity and utilization rate have resulted in an increase in our sales. Our sales volume increased from 188,105 tons in 2008 to 250,255 tons in 2009 and further to 275,549 tons in 2010, and our sales volume for the six months ended June 30, 2011 was 178,557 tons. Our sales increased from RMB700.1 million in 2008 to RMB1,006.5 million in 2009 and to RMB1,211.8 million in 2010 and had reached RMB715.3 million for the six months ended June 30, 2011. We plan to further increase our total production capacity to meet increasing market demand for our products and to increase and maintain our market share. We intend to expand our production capacity of sodium chlorate, hydrogen peroxide and caustic soda in fiscal years 2012 and 2013 by constructing additional production capacity at our existing production facilities and possible acquisitions of third party producers. We expect to fund these capital expenditures with funds generated from our operations, bank borrowings and the proceeds of the Global Offering.

Cost of raw materials

Our profit margins are largely a function of the relationship between the prices that we are able to charge for our products and the costs of the raw materials that we require to make these products. The costs of the raw materials we use to produce our products are commodities subject to market forces. Our historical operations and margins have been and will continue to be affected by fluctuations in prices for raw materials. Moreover, fluctuations in the prices of our raw materials may increase our costs of sales and reduce our gross profit and gross margin. In 2008, 2009 and 2010 and the six months ended June 30, 2011, the raw material used and changes in inventory amounted to approximately RMB249.4 million, RMB443.6 million, RMB553.9 million and RMB307.1 million, respectively, constituting approximately 50%, 61%, 62% and 63% of our total cost of sales, respectively.

Price and supply of electricity

Cost of utilities, including primarily electricity, is a significant component of our cost of sales. In 2008, 2009 and 2010 and the six months ended June 30, 2011, our cost of utilities represented approximately 33.7%, 27.8%, 27.8% and 26.6% of our total cost of sales, respectively. As a result, our results of operations are affected by the price and supply of electricity. The price of electricity charged by the state grid companies is determined by the PRC governmental authorities, including primarily the NDRC, and is based on a number of market conditions, such as cost of coal, supply and demand and utilization of power plants. Historically, we have been able to benefit from a lower cost of electricity as compared to our competitors. Fuzhou Yihua satisfies its electricity consumption requirements both through operating a self-owned hydroelectric power station and connecting to the national grid. Fujian Rongping has entered into a three-party agreement with a number of privately owned hydroelectric power plants located in Rongping and the local authorities to secure a price of electricity that is generally lower than that charged by the state grid companies. In addition, Fujian Rongchang has been granted a preferential electricity price granted by the local authorities in Rongchang. We cannot assure you that we will be able to renew the electricity supply agreements based on the same terms, if at all, or continue to receive the preferential price from the local authorities. In addition, the production of our products requires a continuous and stable supply of electricity to meet the underlying production schedule and quality standards. Any interruption of such supply could adversely affect our results of operations and financial condition.

Product mix

Our results of operations, including particularly gross margin, are affected by the change in the mix of our products. Our principal products are bleaching and disinfectant chemicals (including sodium chlorate and hydrogen peroxide) and ADC foaming agent. In addition, we also produce other specialty chemicals such as potassium chlorate, sodium perchlorate, potassium perchlorate and biurea, some of which are used internally to produce other products.

Our gross margins may vary based on product type. Our bleaching and disinfectant chemical products, particularly sodium chlorate and hydrogen peroxide, generally have a higher gross margin than other products including ADC foaming agent. We enjoy more pricing flexibility in terms of the bleaching and disinfecting chemicals due primarily to our market leading position and technological advantage.

The gross margin of our ADC foaming agent was comparatively low primarily because we had outsourced a significant portion of production of basic ADC foaming agent to third parties to meet demands for the product. As a result, any increase in the sales of the products of lower margin may have a negative impact on our total gross margin. For example, our total gross margin decreased from 28.3% in 2008 to 27.4% in 2009 partly due to the faster increase in sales of ADC foaming agent. Going forward, we intend to increase our focus on modified and specialized ADC foaming agent to achieve higher profitability.

PVC products generally have low margins due to the intense competition and increasing costs of raw materials. Therefore, we stopped producing PVC products in May 2010, although we intend to actively monitor the PVC industry and may resume its production when market conditions improve. As a result of the shutdown of our PVC production facility and our increased internal usage of biurea in the production of ADC foaming agent, our sales from other specialty chemical products decreased by 17.9% to RMB208.6 million in 2010 from RMB254.2 million in 2009.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. The methods, estimates and judgments that we use in applying our accounting policies may have a significant impact on our results as reported in our consolidated financial information included elsewhere in this prospectus. Some of the accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies that we believe are both important to the presentation of our financial results and involve the need to make estimates and judgments about the effect of matters that are inherently uncertain. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial information, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We also have other accounting policies, estimates and judgments that we consider to be significant which are set forth in detail in Notes 3 and 5 of Section II to the Accountant's Report set out in Appendix I to this prospectus.

Revenue Recognition

We recognize revenue when it is probable that future economic benefits will flow to us and when the amount of revenue can be reliably measured. Revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods

Sales of goods are recognized when we have delivered products to the customer, the customer has accepted the products and the collectability of the related receivables is reasonably assured.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Depreciation

We determine the estimated useful lives and related depreciation charges for our property, plant and equipment with reference to the estimated periods that we intend to derive future economic benefits from the use of these assets. We will revise the depreciation charge where useful lives are different to previously estimated, or write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Inventory

We estimate the net realizable value for finished goods and semi-finished goods based primarily on the estimated selling prices in the ordinary course of business, less applicable variable selling expenses. We carry out an inventory review on a product-by-product basis at each balance sheet date and will make provision for impairment on obsolete and slow-moving items or will write-off or write-down inventories to net realizable value.

Impairment of receivables

Provision for impairment of receivables is determined based on the evaluation of collectability of receivables. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, the past collection history of each customer and the current market condition.

Taxation

Our PRC subsidiaries are subject to enterprise income tax in the PRC. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when we consider to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

CERTAIN CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ITEMS

Revenue

We generate revenue primarily from the sales of bleaching and disinfectant products, ADC foaming agent and other specialty chemicals. We sell our products to domestic customers directly and through distributors. We export to international customers mainly through international distributors. The table below sets out our revenue by product groups and major products for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2008		2009		2010		2010		2011	
							(unaudited)			
		% of revenue		% of revenue		% of revenue		% of revenue		% of revenue
	(RMB in thousands, except percentages)									
Bleaching and disinfectant chemicals:										
Sodium chlorate	209,174	29.9%	267,754	26.6%	262,310	21.6%	123,399	22.3%	136,944	19.1%
Hydrogen peroxide	109,021	15.6%	117,405	11.7%	123,986	10.2%	44,080	8.0%	111,161	15.5%
Others	22,732	3.2%	23,944	2.3%	30,824	2.6%	11,704	2.1%	20,946	3.0%
Subtotal	**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:										
Caustic soda	34,598	4.9%	40,079	4.0%	38,864	3.2%	14,839	2.7%	33,084	4.6%
Others	201,369	28.8%	214,113	21.3%	169,703	14.0%	87,747	15.9%	83,848	11.8%
Subtotal	**235,967**	**33.7%**	**254,192**	**25.3%**	**208,567**	**17.2%**	**102,586**	**18.6%**	**116,932**	**16.4%**
Total	**700,055**	**100.0%**	**1,006,502**	**100.0%**	**1,211,826**	**100.0%**	**552,465**	**100.0%**	**715,316**	**100.0%**

- Bleaching and disinfectant chemicals — This segment consists of sodium chlorate, hydrogen peroxide, sodium hypochlorite and chlorine. Sodium chlorate and hydrogen peroxide are two of our largest sales generating products. Other than sodium hypochlorite which we began to produce in 2010, the other three products within this segment have experienced steady increase in sales over the Track Record Period. Sodium chlorate and hydrogen peroxide are the principal chemicals used in the ECF and TCF pulp bleaching processes by our downstream customers, respectively.

- ADC foaming agent — Our sales of ADC foaming agent have increased over the Track Record Period. We began the production and sale of modified grades of ADC foaming agent in 2010, which have a higher margin than basic grade ADC foaming agent. We began substantially outsourcing the production of basic grade ADC foaming agent in 2009 to meet demands for the product.

- Other specialty chemicals — This segment consists of potassium chlorate, sodium perchlorate, potassium perchlorate, caustic soda, PVC, biurea and others (including hydrochloric acid and sodium carbonate dehydrate). We ceased the production of PVC in May 2010.

The following table sets out our revenue and percentage of revenue attributable to sales to distributors and direct sales to downstream manufacturers for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2008		2009		2010		2010		2011	
							(unaudited)			
		% of revenue		% of revenue		% of revenue		% of revenue		% of revenue
	(RMB in thousands, except percentages)									
Revenue from distributors	448,381	64.0%	605,953	60.2%	783,917	64.7%	348,802	63.1%	454,686	63.6%
Revenue from direct sales	251,674	36.0%	400,549	39.8%	427,909	35.3%	203,663	36.9%	260,630	36.4%
Total	**700,055**	**100.0%**	**1,006,502**	**100.0%**	**1,211,826**	**100.0%**	**552,465**	**100.0%**	**715,316**	**100.0%**

We adopt consistent accounting policies on revenue recognition to all our customers, whether distributors or direct customers. Sales of goods are recognized when we have delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Cost of sales

Our cost of sales primarily consists of costs of raw materials, electricity and other energy fees, depreciation of property, plant and equipment, employee benefit expenses, transportation and related charges, repairs and maintenance, business tax and other transaction taxes, office expenses, traveling expenses and other expenses. Raw materials used and changes in inventories, including foaming agent sourced from third parties, is the largest component of our cost of sales, representing 50%, 61%, 62% and 63% of our total cost of sales in 2008, 2009 and 2010 and the six months ended June 30, 2011, respectively.

For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, the average cost of sales per ton for our bleaching and disinfectant chemicals was RMB1,478, RMB1,386, RMB1,419 and RMB1,210, respectively. For the same periods, the average cost of sales per ton for ADC foaming agent was RMB12,194, RMB11,055, RMB11,996 and RMB13,125, respectively, and for other specialty chemicals, was RMB4,265, RMB3,758, RMB3,110 and RMB2,804, respectively.

The table below sets out our cost of sales by product groups and major products for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2008		2009		2010		2010		2011	
							(unaudited)			
		% of cost of sales		% of cost of sales		% of cost of sales		% of cost of sales		% of cost of sales
	(RMB in thousands, except percentages)									
Bleaching and disinfectant chemicals:										
Sodium chlorate	133,164	26.5%	163,860	22.4%	180,083	20.2%	84,222	20.0%	95,090	19.5%
Hydrogen peroxide	47,106	9.4%	54,295	7.4%	61,483	6.9%	24,525	5.8%	50,700	10.4%
Others	15,830	3.2%	17,160	2.4%	22,844	2.6%	9,305	2.2%	14,830	3.0%
Subtotal	**196,100**	**39.1%**	**235,315**	**32.2%**	**264,410**	**29.7%**	**118,052**	**28.0%**	**160,620**	**32.9%**
ADC foaming agent	**110,734**	**22.1%**	**295,467**	**40.4%**	**471,142**	**52.9%**	**223,007**	**52.8%**	**251,340**	**51.6%**
Other specialty chemicals:										
Caustic soda	22,700	4.4%	25,406	3.5%	23,979	2.7%	10,336	2.5%	14,461	3.0%
Others	172,424	34.4%	174,658	23.9%	131,478	14.7%	70,668	16.8%	60,912	12.5%
Subtotal	**195,124**	**38.8%**	**200,064**	**27.4%**	**155,457**	**17.4%**	**81,004**	**19.2%**	**75,373**	**15.5%**
Total	**501,958**	**100.0%**	**730,846**	**100.0%**	**891,009**	**100.0%**	**422,063**	**100.0%**	**487,333**	**100.0%**

The general increase in the cost of sales during the Track Record Period was primarily due to the increase in the overall sales volume of our products:

- *Bleaching and disinfectant chemicals* — The increase in the cost of sales of bleaching and disinfectant chemicals during the Track Record Period was primarily due to an increase in sales volume.

- *ADC foaming agent* — Cost of sales of ADC foaming agent increased significantly during the Track Record Period as we began to increase outsourcing production in 2009 to increase sales. Customers for ADC foaming agent were also less affected by the global financial crisis than those for bleaching and disinfectant chemicals and we continued to increase the scale of our outsourcing, as reflected in the further increase in the cost of sales of ADC foaming agent in 2010. The increase of cost of sales of ADC foaming agent from the six months ended June 30, 2010 to the six months ended June 30, 2011 was also attributed to our commencement of production of modified ADC foaming agent since the third quarter of 2010.

- *Other specialty chemicals* — Cost of sales of other specialty chemicals experienced an overall decline over the Track Record Period primarily due to the decrease in production of PVC in response to competitive market pressures. We ceased the production of PVC in May 2010.

The table below sets out our cost of sales by nature for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2008		2009		2010		2010		2011	
							(unaudited)			
		% of cost of sales		% of cost of sales		% of cost of sales		% of cost of sales		% of cost of sales
	(RMB in thousands, except percentages)									
Raw materials used and changes in inventory	**249,426**	**49.7%**	**443,559**	**60.7%**	**553,930**	**62.2%**	**266,481**	**63.2%**	**307,084**	**63.0%**
Industrial salt, urea, coal, potassium chloride and foaming agent	153,858	30.7%	335,729	45.9%	488,168	54.8%	248,773	59.0%	265,491	54.5%
Others	95,568	19.0%	107,830	14.8%	65,762	7.4%	17,708	4.2%	41,593	8.5%
Electricity and water	169,113	33.7%	203,294	27.8%	248,122	27.8%	111,032	26.3%	129,838	26.6%
Direct labor	26,844	5.3%	27,491	3.8%	28,683	3.2%	12,269	2.9%	13,554	2.8%
Depreciation and amortization	37,126	7.4%	37,265	5.1%	39,552	4.4%	18,723	4.4%	26,439	5.4%
Others	19,449	3.9%	19,237	2.6%	20,722	2.4%	13,558	3.2%	10,418	2.2%
Total	**501,958**	**100.0%**	**730,846**	**100.0%**	**891,009**	**100.0%**	**422,063**	**100.0%**	**487,333**	**100.0%**

An explanation of the trend in our cost of sales by nature for the Track Record Period:

- *Raw materials used and changes in inventory* — The increase in raw material cost during the Track Record Period was primarily due to an increase in raw material costs for ADC foaming agent which experienced a large increase in sales. Other raw material costs decreased from 2009 to 2010 primarily because we ceased production of our PVC products in May 2010, and accordingly, ceased to source one of its main raw materials, calcium carbide (CaC_2). The increase in other raw material costs for the six months ended June 30, 2010 to the six months ended June 30, 2011 was attributable to increased raw material requirements as we increased hydrogen peroxide production following the completion of our production capacity expansion of hydrogen peroxide at Fujiang Rongping in December 2010.

- *Electricity and water* — Electricity and water costs recorded a general increase over the Track Record Period as a result of an increase in the overall production volume of our products.

- *Direct labor* — Direct labor costs consist of wage and salary costs for our factory workers at our operating subsidiaries' level. Direct labor costs recorded a general increase over the Track Record Period primarily due to adjustments in the number of employees and salary in line with our increase in production and sales.

- *Depreciation and amortization* — This category did not experience significant fluctuations during the Track Record Period. The increase from the six months ended June 30, 2010 to the six months ended June 30, 2011 was due to the completion of our expansion projects at Fujian Rongchang and Fujian Rongping in November 2010 and December 2010, respectively.

- *Others* — This category included costs such as transportation, maintenance and other production costs which did not experience significant fluctuations during the Track Record Period.

The table below sets out our gross profit and gross margin by product groups and major products for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2008		2009		2010		2010		2011	
							(unaudited)			
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	(RMB in thousands, except percentages)									
Bleaching and disinfectant chemicals:										
Sodium chlorate	76,010	36.3%	103,893	38.8%	82,227	31.3%	39,177	31.7%	41,854	30.6%
Hydrogen peroxide	61,915	56.8%	63,110	53.8%	62,503	50.4%	19,555	44.4%	60,461	54.4%
Others	6,902	30.4%	6,785	28.3%	7,980	25.9%	2,399	20.5%	6,116	29.2%
Subtotal	**144,827**	**42.5%**	**173,788**	**42.5%**	**152,710**	**36.6%**	**61,131**	**34.1%**	**108,431**	**40.3%**
ADC foaming agent	**12,427**	**10.1%**	**47,740**	**13.9%**	**114,997**	**19.6%**	**47,689**	**17.6%**	**77,993**	**23.7%**
Other specialty chemicals:										
Caustic soda	11,898	34.4%	14,673	36.6%	14,885	38.3%	4,503	30.3%	18,623	56.3%
Others	28,945	14.4%	39,455	18.4%	38,225	22.5%	17,079	19.5%	22,936	27.4%
Subtotal	**40,843**	**17.3%**	**54,128**	**21.3%**	**53,110**	**25.5%**	**21,582**	**21.0%**	**41,559**	**35.5%**
Total	**198,097**	**28.3%**	**275,656**	**27.4%**	**320,817**	**26.5%**	**130,402**	**23.6%**	**227,983**	**31.9%**

An explanation of the trend in our gross profit and gross margin for the Track Record Period:

- *Bleaching and disinfectant chemicals* — Gross profit in this category recorded an increase from 2008 to 2009 primarily due to an increase in sales volume. Between 2009 and 2010, gross profit decreased as a result of a decrease in the average selling prices of our products due to the impact of the global financial crisis on our downstream customers. Although gross margin remained stable from 2008 to 2009, it was a result of comparable decreases in both the average selling prices of our products as well as the costs of raw materials as a result of the impact of the global financial crisis. Between 2009 and 2010, gross margin decreased as a result of lower average selling prices on our products due to increases in subsidies we provided to our export customers, and to a lesser extent, the impact of the global financial crisis on our downstream customers. Between the six months ended June 30, 2010 and the six months ended June 30, 2011, both gross profit and gross margin increased, primarily as a result of our increase in the production and sales of hydrogen peroxide following the completion of its production capacity expansion at Fujian Rongping in December 2010, as well as an increase in its average selling price reflecting growing demands from downstream customers.

- *ADC foaming agent* — The increase in gross profit and gross margin from 2008 to 2009 was primarily due to our significant increase in sales of ADC foaming agent as we increased our production and sales through production outsourcing to cater for additional market demand, in particular, downstream automobile upholstery and building material customers that benefited from favorable government policies and were relatively less affected by the global financial crisis. In addition, raw material prices decreased during the year which further supported the increase in our gross margin. Between 2009 and 2010, gross profit and gross margin continued to increase as a result of an increase in the average selling price, while at the same time, raw material cost is reduced as we increased the usage of self-produced raw materials, such as caustic soda and biurea. From the third quarter of 2010, we began production of modified ADC foaming agent which has higher selling prices and gross margin. Between the six months ended June 30, 2010 and the six months ended June 30, 2011, both gross profit and gross margin increased, primarily as a result of an increase in our sales volume from continued production outsourcing as well as our commencement to produce modified ADC foaming agent.

- *Other specialty chemicals* — Gross profit and gross margin increased from 2008 to 2009 primarily as a result of a decrease in raw material prices amidst the global financial crisis as well as our reduction in producing PVC, which had a lower margin. Between 2009 and 2010, gross profit decreased as we increased the use of our self-produced caustic soda and biurea for our production of ADC foaming agent. The average selling prices of other specialty chemicals also demonstrated increases since the global financial crisis, thus supported an increase in our gross margin. Between the six months ended June 30, 2010 and the six months ended June 30, 2011, both gross profit and gross margin increased, primarily due to the increase in sales volume of caustic soda. Production and sales of caustic soda increased as a result of the completion of our production expansion at Fujian Rongchang in November 2010. The expanded capacity uses the ion membrane method which produces higher quality caustic soda that commands a higher selling price and gross margin. Caustic soda, as well as other specialty chemicals, also experienced increases in average selling price. The cessation of PVC production since May 2010 also contributed to the increase in gross margin as PVC had a relatively lower gross profit margin.

Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation and related charges for the transport of our products, sales taxes such as urban maintenance and construction tax, educational surtax and value-added tax, and other selling and marketing expenses including travelling expenses.

Administrative expenses

Administrative expenses primarily consist of depreciation of property, plant and equipment, employee benefit expenses and office and entertainment expenses.

Other income

Other income primarily consists of profit from sales of raw materials and government subsidies.

Other losses — net

Other losses — net, mainly consists of the net loss from the disposal of property, plant and equipment.

Finance income and costs

Finance income relates primarily to interest earned on our bank deposits. Finance costs primarily consist of interest expenses on bank borrowings, discount interest for bill receivables, other finance charges and foreign exchange losses, less interest capitalized in property, plant and equipment.

Income tax expense

Our income tax expense mainly represents PRC enterprise income tax and deferred income tax. We are subject to PRC enterprise income tax rate of 25% for all our PRC subsidiaries.

Non-controlling interests

Non-controlling interests represents the interest of entities other than equity holders of our subsidiaries' results and net assets of our subsidiaries that we do not wholly own.

RESULTS OF OPERATIONS

The table below summarizes our consolidated results for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2010 and 2011.

Consolidated Statements of Comprehensive Income

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
			(RMB in thousands)		
Revenue	700,055	1,006,502	1,211,826	552,465	715,316
Cost of sales	(501,958)	(730,846)	(891,009)	(422,063)	(487,333)
Gross profit	**198,097**	**275,656**	**320,817**	**130,402**	**227,983**
Selling and marketing expenses	(16,569)	(15,785)	(20,944)	(9,257)	(15,200)
Administrative expenses	(42,879)	(45,856)	(51,281)	(25,731)	(27,071)
Other income	1,174	1,450	1,910	912	3,511
Other (losses)/gains-net	(603)	(1,342)	(3,146)	(773)	350
Operating profit	**139,220**	**214,123**	**247,356**	**95,553**	**189,573**
Finance income	1,058	437	1,621	867	1,127
Finance costs	(33,794)	(29,225)	(19,581)	(11,717)	(13,523)
Finance costs-net	(32,736)	(28,788)	(17,960)	(10,850)	(12,396)
Profit before income tax	**106,484**	**185,335**	**229,396**	**84,703**	**177,177**
Income tax expense	(29,283)	(48,970)	(58,719)	(22,062)	(43,927)
Profit and total comprehensive income for the year/period	**77,201**	**136,365**	**170,677**	**62,641**	**133,250**
Attributable to:					
— Equity holders of the Company	62,307	134,413	169,051	62,049	132,185
— Non-controlling interests	14,894	1,952	1,626	592	1,065
	77,201	**136,365**	**170,677**	**62,641**	**133,250**

Segment information

Due to the similarities in the nature of our products, their production and customers, our products are aggregated into a single reportable segment in the Accountant's Report in Appendix I. The table below sets out our revenue, cost of sales and gross profit by major product groups for the periods indicated.

	Bleaching and disinfectant chemicals	ADC foaming agent	Other specialty chemicals	Total
	(RMB in thousands)			
For the year ended December 31, 2008:				
Revenue	340,927	123,161	235,967	700,055
Cost of sales	(196,100)	(110,734)	(195,124)	(501,958)
Gross profit	144,827	12,427	40,843	198,097
For the year ended December 31, 2009:				
Revenue	409,103	343,207	254,192	1,006,502
Cost of sales	(235,315)	(295,467)	(200,064)	(730,846)
Gross profit	173,788	47,740	54,128	275,656
For the year ended December 31, 2010:				
Revenue	417,120	586,139	208,567	1,211,826
Cost of sales	(264,410)	(471,142)	(155,457)	(891,009)
Gross profit	152,710	114,997	53,110	320,817
For the six months ended June 30, 2010 (unaudited):				
Revenue	179,183	270,696	102,586	552,465
Cost of sales	(118,052)	(223,007)	(81,004)	(422,063)
Gross profit	61,131	47,689	21,582	130,402
For the six months ended June 30, 2011:				
Revenue	269,051	329,333	116,932	715,316
Cost of sales	(160,620)	(251,340)	(75,373)	(487,333)
Gross profit	108,431	77,993	41,559	227,983

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Revenue. Our revenue increased by 29.5% to RMB715.3 million for the six months ended June 30, 2011 from RMB552.5 million for the six months ended June 30, 2010, primarily due to an overall increase in the sales of our products, in particular, bleaching and disinfectant chemicals.

- *Bleaching and disinfectant chemicals* — Sales of bleaching and disinfectant chemicals increased by 50.2% to RMB269.1 million for the six months ended June 30, 2011 from RMB179.2 million for the six months ended June 30, 2010, primarily due to an increase in the sales of hydrogen peroxide. Sales of hydrogen peroxide increased by 152.2% to RMB111.2 million for the six months ended June 30, 2011 from RMB44.1 million for the six months ended June 30, 2010 primarily due to the increase in production of hydrogen peroxide following our production capacity expansion at Fujian Rongping in December 2011 as well as an increase in the average selling price of hydrogen peroxide by 30.9% to RMB1,328 per ton for the six months ended June 30, 2011 from RMB1,015 per ton for the six months ended June 30, 2010, reflecting an increase in demand from downstream industries. The average selling price for sodium chlorate increased slightly by 1.0% to RMB3,905 per ton for the six months ended June 30, 2011 as compared to RMB3,867 per ton for the six months ended June 30, 2010.

- *ADC foaming agent* — Sales of ADC foaming agent increased by 21.7% to RMB329.3 million for the six months ended June 30, 2011 from RMB270.7 million for the six months ended June 30, 2010, primarily due to our commencement of production of modified ADC foaming agent since the third quarter of 2010. Average selling price for ADC foaming agent also increased by 21.7% to RMB17,198 per ton for the six months ended June 30, 2011 as compared to RMB14,134 per ton for the six months ended June 30, 2010, reflecting a combination of (i) the improved product quality of our ADC foaming agent products after we upgraded our production facilities and commenced production of modified ADC foaming agent since the third quarter of 2010; and (ii) an overall increase in demand for ADC foaming agent products.

- *Other specialty chemicals* — Sales of other specialty chemicals increased by 14.0% to RMB116.9 million for the six months ended June 30, 2011 from RMB102.6 million for the six months ended June 30, 2010, primarily due to an increase in sales of caustic soda, partially offset by a slight decrease in the sales of other products in this category. Sales of caustic soda increased by 123.0% to RMB33.1 million for the six months ended June 30, 2011 from RMB14.8 million for the six months ended June 30, 2010 as a result of and increase in production and sales following our production capacity expansion at Fujian Rongchang in November 2010. Sales of other products in this category decreased by 4.7% to RMB83.8 million the six months ended June 30, 2011 from RMB87.7 million for the six months ended June 30, 2010 primarily due to the shutdown of our PVC production facility in May 2010 and an increase in internal use of biurea. Average selling price for other specialty chemicals remained stable at RMB4,353 per ton for the six months ended June 30, 2011 compared with RMB4,355 for the six months ended June 30, 2010.

Cost of sales. Our cost of sales increased by 15.5% to RMB487.3 million for the six months ended June 30, 2011 from RMB422.1 million for the six months ended June 30, 2010, primarily due to the increase in sales volume of both bleaching and disinfectant chemicals and ADC foaming agent.

Gross profit and gross margin. Our gross profit increased by 74.8% to RMB228.0 million for the six months ended June 30, 2011 from RMB130.4 million for the six months ended June 30, 2010, primarily due to increase in sales of hydrogen peroxide. Our gross margin increased to 31.9% for the six months ended June 30, 2011 from 23.6% for the six months ended June 30, 2010 primarily due to an increase in the sales volume of hydrogen peroxide which commands a higher margin, and an increase in the average selling price of ADC foaming agent.

Selling and marketing expenses. Our selling and marketing expenses increased by 64.2% to RMB15.2 million for the six months ended June 30, 2011 from RMB9.3 million for the six months ended June 30, 2010, primarily due to an increase in value added tax, our ability to offset which had been reduced as a result of a reduction in value added tax input credits following the completion of our caustic soda and hydrogen peroxide production capacity expansions at Fujian Rongchang and Fujian Rongping in November 2010 and December 2010, respectively.

Administrative expenses. Our administrative expenses increased by 5.2% to RMB27.1 million for the six months ended June 30, 2011 from RMB25.7 million for the six months ended June 30, 2010, primarily due to increase in business activities and growth of operation. The percentage of expenses incurred in relation to production safety and environmental protection compliance within administrative expenses increased to 5.4% for the six months ended June 30, 2011 from 4.3% for the six months ended June 30, 2010.

Other income. Our other income increased to RMB3.5 million for the six months ended June 30, 2011 from RMB0.9 million for the six months ended June 30, 2010, primarily due to an increase in profit from the sales of raw materials and an increase in government subsidies.

Other (losses)/gains — net. Our other net gains was RMB0.4 million for the six months ended June 30, 2011 while we incurred other net losses of RMB0.8 million for the six months ended June 30, 2010, primarily due to gains on disposal of property, plant and equipment.

Finance income. Our finance income increased to RMB1.1 million for the six months ended June 30, 2011 from RMB0.9 million for the six months ended June 30, 2010, primarily due to increased interest income from bank deposits.

Finance costs. Our finance costs increased by 15.4% to RMB13.5 million for the six months ended June 30, 2011 from RMB11.7 million for the six months ended June 30, 2010, primarily due to the absence of capitalized interest in property, plant and equipment, and an increase in exchange gains from related party loans.

Income tax expense. Our income tax expense increased by 99.1% to RMB43.9 million for the six months ended June 30, 2011 from RMB22.1 million for the six months ended June 30, 2010. Our effective tax rate decreased to 24.8% for the six months ended June 30, 2011 from 26.0% for the six months ended June 30, 2010 as a result of adjustments for income and expenses items which were not assessable or deductible for income tax purpose. Please refer to Note 29 to the Accountant's Report set out in Appendix I to this prospectus.

Profit for the period. As a result of the foregoing factors, our profit for the year increased by 112.7% to RMB133.3 million for the six months ended June 30, 2011 from RMB62.6 million for the six months ended June 30, 2010.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 113.0% to RMB132.2 million for the six months ended June 30, 2011 from RMB62.0 million for the six months ended June 30, 2010 as a result of the foregoing factors.

Profit attributable to non-controlling interests. Profit attributable to non-controlling interests increased by 79.9% to RMB1.1 million for the six months ended June 30, 2011 from RMB0.6 million for the six months ended June 30, 2010, in line with the increase in sales of our products from Fuzhou Yihua. Non-controlling interests represents non-controlling shareholders' ownership of 2.73% equity interests in Fuzhou Yihua.

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenue. Our revenue increased by 20.4% to RMB1,211.8 million in 2010 from RMB1,006.5 million in 2009, primarily due to a significant increase in the sales of ADC foaming agent products, partially offset by a decrease in the sales of other specialty chemicals.

- *Bleaching and disinfectant chemicals* — Sales of bleaching and disinfectant chemicals increased slightly by 2.0% to RMB417.1 million in 2010 from RMB409.1 million in 2009 despite a larger increase in sales volume primarily because of lower average selling price in 2010. Average selling price for sodium chlorate decreased by 10.9% to RMB3,847 per ton in 2010 as compared to RMB4,319 per ton in 2009 while the average selling price for hydrogen peroxide decreased by 2.7% to RMB1,261 per ton in 2010 from RMB1,296 per ton in 2009. Such decreases reflected i) lower demand due to the impact of the global financial crisis, and ii) an increase in export of sodium chlorate to Japan, which was priced lower than those sold domestically.

- *ADC foaming agent* — Sales of ADC foaming agent increased by 70.8% to RMB586.1 million in 2010 from RMB343.2 million in 2009 primarily due to increase in sales volume as a result of increased production outsourcing, as well as increase in the average selling price. Average selling price for ADC foaming agent increased by 16.2% to RMB14,925 per ton in 2010 as compared to RMB12,841 per ton in 2009. Such increase reflected a combination of (i) general market recovery in the prices of ADC foaming agent products as a result of increase in domestic demand as downstream customers of ADC foaming agent, such as those from the footwear, automobile upholstery and building materials industries in the PRC, which were more consumer oriented, and recovered more quickly after the global financial crisis as compared to certain other industries; and (ii) the improved product quality of our ADC foaming agent products after we upgraded our production facilities and commenced the production of modified ADC foaming agent products since the third quarter of 2010.

- *Other specialty chemicals* — Sales of other specialty chemicals decreased by 17.9% to RMB208.6 million in 2010 from RMB254.2 million in 2009 primarily due to the shutdown of our PVC production facility in May 2010 and the increased internal use of biurea for the production of ADC foaming agent. Average selling price for other specialty chemicals also decreased by 12.9% from RMB4,803 in 2009 to RMB4,182 in 2010 as a result of our cessation of production of PVC, which had a relatively higher selling price than other products in this category. To a lesser extent, the decrease in average selling price was also a result of lower demand due to the impact of the global financial crisis.

Cost of sales. Our cost of sales increased by 21.9% to RMB891.0 million in 2010 from RMB730.8 million in 2009 primarily due to the increase in sales volume of both bleaching and disinfectant chemicals and ADC foaming agent. The average cost per ton of our raw materials in aggregate increased by 13.4% as a result of increased sales of ADC foaming agent, the raw material cost of which was relatively higher.

Gross profit and gross margin. Our gross profit increased by 16.4% to RMB320.8 million in 2010 from RMB275.7 million in 2009, primarily due to increase in sales volume of our products. Our gross margin decreased to 26.5% in 2010 from 27.4% in 2009 primarily due to an increase in the proportion of our export of sodium chlorate which had lower margin than some of our other products, and a decrease in the average selling price of hydrogen peroxide.

Selling and marketing expenses. Our selling and marketing expenses increased by 32.7% to RMB20.9 million in 2010 from RMB15.8 million in 2009, primarily due to our increase in sales, which resulted in higher transportation and related charges and higher employee benefit expenses.

Administrative expenses. Our administrative expenses increased by 11.8% to RMB51.3 million in 2010 from RMB45.9 million in 2009 primarily due to increase in business activities and growth of operation. The percentage of expenses incurred in relation to production safety and environmental protection compliance within administrative expenses decreased to 4.6% in 2010 from 19.5% in 2009, primarily due to the reclassification of certain expenses to cost of sales, which we believe is a better reflection of our operations.

Other income. Our other income increased to RMB1.9 million in 2010 from RMB1.5 million in 2009 primarily due to an increase in profit from the sales of raw materials, partially offset by a decrease in governmental subsidies.

Other losses — net. Our other net losses increased to RMB3.1 million in 2010 from RMB1.3 million in 2009 primarily due to loss on disposals of property, plant and equipment.

Finance income. Our finance income increased to RMB1.6 million in 2010 from RMB0.4 million in 2009 primarily due to an increase in interest income from increased bank deposits as a result of the investment of Trophy Group.

Finance costs. Our finance costs decreased by 33.0% to RMB19.6 million in 2010 from RMB29.2 million in 2009 primarily due to an increase in capitalized interest expense in relation to our expansion of caustic soda and hydrogen peroxide production.

Income tax expense. Our income tax expense increased by 19.9% to RMB58.7 million in 2010 from RMB49.0 million in 2009. Our effective tax rate decreased to 25.6% in 2010 from 26.4% in 2009, as a result of adjustments for income and expenses items which were not assessable or deductible for income tax purpose. Please refer to Note 29 to the Accountant's Report set out in Appendix I to this prospectus.

Profit for the year. As a result of the foregoing factors, our profit for the year increased by 25.2% to RMB170.7 million in 2010 from RMB136.4 million in 2009.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 25.8% to RMB169.1 million in 2010 from RMB134.4 million in 2009, in line with the increase in sales of our products.

Profit attributable to non-controlling interests. Profit attributable to non-controlling interests decreased by 16.7% to RMB1.6 million in 2010 from RMB2.0 million in 2009 due to a decrease in net profit of Fuzhou Yihua as a result of increase in export sales volume of sodium chlorate. Non-controlling interests represents non-controlling shareholders' ownership of 2.73% equity interests in Fuzhou Yihua.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue. Our revenue increased by 43.8% to RMB1,006.5 million in 2009 from RMB700.1 million in 2008, primarily due to increased production capacity and utilization rate of our production facilities.

- *Bleaching and disinfectant chemicals* — Sales of bleaching and disinfectant chemicals increased by 20.0% to RMB409.1 million in 2009 from RMB340.9 million in 2008 primarily due to increased production through increased production capacity and higher utilization rates of our production facilities, partially offset by a decrease in the average selling price during the year. Average selling price for sodium chlorate recorded an increase of 3.8% to RMB4,319 per ton in 2009 as compared to RMB4,160 per ton in 2008 while the average selling price for hydrogen peroxide decreased by 15.2% to RMB1,296 per ton in 2009 from RMB1,528 per ton in 2008. The decrease in the average selling price of hydrogen peroxide reflected the anticipation of lower demand due to the impact of the global financial crisis.

- *ADC foaming agent* — Sales of ADC foaming agent increased to RMB343.2 million in 2009 from RMB123.2 million in 2008 primarily due to our outsourcing of its production to increase sales, partially offset by a decrease in the average selling price during the year. Average selling price of ADC foaming agent decreased by 5.3% to RMB12,841 per ton in 2009 as compared to RMB13,562 per ton in 2008, reflecting lower demand due to the impact of the global financial crisis.

- *Other specialty chemicals* — Sales of other specialty chemicals increased by 7.7% to RMB254.2 million in 2009 from RMB236.0 million in 2008 primarily due to increased production through higher utilization rates of our production facilities, partially offset by a reduction in the production and sales of PVC and a decrease in average selling price. Sales of PVC decreased to RMB41.4 million in 2009 from RMB48.3 million in 2008 primarily because we reduced PVC production in light of strong competition and increasing raw material costs. The average selling price of other specialty chemicals decreased by 7.5% to RMB4,803 per ton in 2009 as compared to RMB5,192 per ton in 2008, reflecting lower demand due to the impact of the global financial crisis.

Cost of sales. Our cost of sales increased by 45.6% to RMB730.8 million in 2009 from RMB502.0 million in 2008 primarily due to the increase in sales volume of all three major categories of our products. The average cost per ton of our raw materials in aggregate increased by 33.7% as a result of increased sales of ADC foaming agent, the raw material cost of which was relatively higher.

Gross profit and gross margin. Our gross profit increased by 39.2% to RMB275.7 million in 2009 from RMB198.1 million in 2008, primarily due to the increase in sales volume of our products. Our gross margin decreased slightly to 27.4% in 2009 from 28.3% in 2008, because lower margin products such as basic ADC foaming agent and other specialty chemicals, experienced faster increase in sales than bleaching and disinfectant chemicals. The general increase in gross margins of each product group reflects primarily the larger reduction in raw material prices relative to a smaller reduction in certain average selling prices as a result of the global financial crisis.

Selling and marketing expenses. Our selling and marketing expenses decreased by 4.7% to RMB15.8 million in 2009 from RMB16.6 million in 2008 because we did not bear certain freight and forwarding charges in 2009.

Administrative expenses. Our administrative expenses increased by 6.9% to RMB45.9 million in 2009 from RMB42.9 million in 2008, primarily due to increase in business activities and growth of operation. The percentage of expenses incurred in relation to production safety and environmental protection compliance within administrative expenses increased to 19.5% in 2009 from 18.6% in 2008.

Other income. Our other income increased to RMB1.5 million in 2009 from RMB1.2 million in 2008, primarily due to gains from sales of raw materials.

Other losses — net. Our other losses — net increased to RMB1.3 million in 2009 from RMB0.6 million in 2008, primarily due to loss on disposal of property, plant and equipment.

Finance income. Our finance income decreased by 58.7% to RMB0.4 million in 2009 from RMB1.1 million in 2008, primarily due to decreases in the prevailing interest rate for bank deposits. Although our restricted cash and cash and cash equivalents increased substantially in 2009, this only occurred towards the end of the year and its effect on our finance income for the year was not significant.

Finance costs. Our finance costs decreased by 13.5% to RMB29.2 million in 2009 from RMB33.8 million in 2008, primarily due to capitalized interest in property, plant and equipment of RMB4.7 million in 2009 in relation to our upgrades and expansion of production capacity. We were also able to secure long-term financing for our expansion projects which reduced our effective interest rate.

Income tax expense. Our income tax expense increased by 67.2% to RMB49.0 million in 2009 from RMB29.3 million in 2008. Our effective tax rate decreased to 26.4% in 2009 from 27.5% in 2008, as a result of adjustments for income and expenses items which were not assessable or deductible for income tax purpose. Please refer to Note 26 to the Accountant's Report set out in Appendix I to this prospectus.

Profit for the year. As a result of the foregoing factors, our profit for the year increased by 76.6% to RMB136.4 million in 2009 from RMB77.2 million in 2008.

Profit attributable to equity holders of the Company. Profit attributable to equity holders of the Company increased by 115.7% to RMB134.4 million in 2009 from RMB62.3 million in 2008 as a result of the foregoing factors.

Profit attributable to non-controlling interests. Profit attributable to non-controlling interests decreased by 86.9% to RMB2.0 million in 2009 from RMB14.9 million in 2008, as a result of our acquisition and increase of equity interests in Fuzhou Yihua to 97.27% in September 2008 from 51.16% at the beginning of year 2008. Accordingly, non-controlling interests in Fuzhou Yihua was reduced from 48.84% as at January 1, 2008 to 2.73% as at December 31, 2008.

SENSITIVITY ANALYSIS ON AVERAGE SELLING PRICE OF PRODUCTS AND AVERAGE COST OF RAW MATERIALS

The average selling price of our products as well as the average cost of raw materials may fluctuate significantly due to market factors. See "Risk Factors — Risks Relating to Our Business — Fluctuations in the average selling prices of our products may adversely affect our results of operations." and "Risk Factors — Risks Relating to Our Business — Our business may be adversely affected by increases in raw material prices that we are unable to pass on to our customers." The following table demonstrates the sensitivity analysis of the impact on our profit for the period if a 10% change in the average selling price of our major products and average cost of our main raw materials, with all other variables held constant, occurred during the Track Record Period:

	% increase (decrease) in average selling price of main products or average cost of main raw materials	Effect on profit for the period	
		Amount increase (decrease)	% increase (decrease) of profit for the period
		(RMB in thousands)	
For the year ended December 31, 2008:			
Sodium chlorate	10% / (10%)	15,688 / (15,688)	20.3% / (20.3%)
Hydrogen peroxide	10% / (10%)	8,177 / (8,177)	10.6% / (10.6%)
ADC foaming agent	10% / (10%)	9,237 / (9,237)	12.0% / (12.0%)
Major raw materials (industrial salt, urea, coal, potassium chloride and foaming agent)	10% / (10%)	(11,539) / 11,539	(14.9%) / 14.9%
For the year ended December 31, 2009:			
Sodium chlorate	10% / (10%)	20,082 / (20,082)	14.7% / (14.7%)
Hydrogen peroxide	10% / (10%)	8,805 / (8,805)	6.5% / (6.5%)
ADC foaming agent	10% / (10%)	25,741 / (25,741)	18.9% / (18.9%)
Major raw materials (industrial salt, urea, coal, potassium chloride and foaming agent)	10% / (10%)	(25,180) /25,180	(18.5%) / 18.5%
For the year ended December 31, 2010:			
Sodium chlorate	10% / (10%)	19,673 / (19,673)	11.5% / (11.5%)
Hydrogen peroxide	10% / (10%)	9,299 / (9,299)	5.4% / (5.4%)
ADC foaming agent	10% / (10%)	43,960 / (43,960)	25.8% / (25.8%)
Major raw materials (industrial salt, urea, coal, potassium chloride and foaming agent)	10% / (10%)	(36,613) /36,613	(21.5%) / 21.5%
For the six months ended June 30, 2010:			
Sodium chlorate	10% / (10%)	9,255 / (9,255)	14.8% / (14.8%)
Hydrogen peroxide	10% / (10%)	3,306 / (3,306)	5.3% / (5.3%)
ADC foaming agent	10% / (10%)	20,302 / (20,302)	32.4% / (32.4%)
Major raw materials (industrial salt, urea, coal, potassium chloride and foaming agent)	10% / (10%)	(18,658) / 18,658	(29.8%) / 29.8%
For the six months ended June 30, 2011:			
Sodium chlorate	10% / (10%)	10,271 / (10,271)	7.7% / (7.7%)
Hydrogen peroxide	10% / (10%)	8,337 / (8,337)	6.3% / (6.3%)
ADC foaming agent	10% / (10%)	24,700 / (24,700)	18.5% / (18.5%)
Major raw materials (industrial salt, urea, coal, potassium chloride and foaming agent)	10% / (10%)	(19,912) / 19,912	(14.9%) / 14.9%

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from our operations and bank borrowings, as well as equity financing through shareholders. Our principal uses of cash have been for the funding of required working capital to support the expansion of our operations, the purchase of property, plant and equipment, income tax and interest payments and repayments of bank borrowings. We plan to continue to use our cash to support the expansion of our operations.

Given our credit history and relationship with our principal lenders, our current credit status and the current availability of capital in China, we believe that we will not encounter any major difficulties in obtaining additional bank borrowings. As of September 30, 2011, the total amount of undrawn banking facilities available to us was approximately RMB759.0 million. We plan to fund our future business plans, capital expenditures and related expenses as described in this prospectus with cash from operating activities, the net proceeds from the Global Offering and through short-term and long-term borrowings.

Cash Flows

The following table presents selected cash flows data from our consolidated cash flow statements for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2008	**2009**	**2010**	**2010**	**2011**
				(unaudited)	
	(RMB in thousands)				
Net cash generated from operating activities	147,502	182,949	165,389	6,256	142,171
Net cash generated from/(used in) investing activities	68,837	(126,876)	(99,115)	(68,441)	(32,149)
Net cash generated from/(used in) financing activities	(207,675)	71,708	135,800	213,369	(114,119)
Net increase/(decrease) in cash and cash equivalents	**8,664**	**127,781**	**202,074**	**151,184**	**(4,097)**
Cash and cash equivalents at beginning of period	59,806	68,034	195,834	195,834	397,231
Exchange gain/(loss) on cash and cash equivalents	(436)	19	(677)	(92)	(354)
Cash and cash equivalents at end of year/period	**68,034**	**195,834**	**397,231**	**346,926**	**392,780**

Cash flows from operating activities

For the six months ended June 30, 2011. Our net cash generated from operating activities was RMB142.2 million for the six months ended June 30, 2011. This net cash inflow primarily reflects gross cash generated from operations of RMB200.6 million net of interest and income tax paid and interest received of RMB58.4 million.

Cash generated from operations was RMB200.6 million, our cash generated from operations before working capital changes was RMB218.8 million. The difference of RMB18.2 million represents working capital usage over the year, and was primarily due to (a) an increase in trade and other receivables of RMB20.8 million in line with increase in sales over the period, and (b) an increase in restricted cash of RMB7.9 million representing bank deposits for issuing bills payable during the period, partially offset by (c) a decease in inventories of RMB3.8 million in line with our prudent inventory control, and (d) an increase in trade and other payables of RMB6.8 million in line with the increase in cost of sales.

For the six months ended June 30, 2010. Our net cash generated from operating activities was RMB6.3 million for the six months ended June 30, 2010. This net cash inflow primarily reflects gross cash generated from operations of RMB43.7 million net of interest and income tax paid and interest received of RMB37.4 million.

Cash generated from operations was RMB43.7 million, while our cash generated from operations before working capital changes was RMB121.1 million. The difference of RMB77.4 million represents working capital usage over the year, and was primarily due to (a) an increase in trade and other receivables of RMB63.4 million as a result of an increase in prepayments to suppliers in relation to the working solution for the launch of our production capacity expansion of hydrogen peroxide at Fujian Rongping, (b) a decrease in trade and other payables of RMB11.0 million mainly due to a decrease in bills payable, and (c) an increase in inventories of RMB4.1 million in anticipation of stronger sales, partially offset by (d) a decrease in restricted cash of RMB1.2 million representing bank deposits for issuing bills payable during the period.

For the year ended December 31, 2010. Our net cash generated from operating activities was RMB165.4 million in 2010. This net cash inflow primarily reflects gross cash generated from operations of RMB238.9 million net of interest and income tax paid and interest received of RMB73.5 million.

Cash generated from operations was RMB238.9 million, while our cash generated from operations before working capital changes was RMB299.4 million. The difference of RMB60.5 million represents working capital usage over the year, and was primarily due to (a) an increase in inventories of RMB51.2 million in relation to an one-off purchase of working solution for the production launch of our expanded hydrogen peroxide production capacity at Fujian Rongping in November and December 2010, (b) an increase in trade and other receivables of RMB24.6 million in line with the increase in sales over the year and an increase in prepayments for raw materials in light of the two new production lines that commenced operation in October 2010, partially offset by (c) a decrease in restricted cash of RMB7.4 million representing bank deposits for issuing bills payable during the period, and (d) an increase in trade and other payables of RMB7.9 million in line with the increase in cost of sales.

For the year ended December 31, 2009. Our net cash generated from operating activities was RMB182.9 million in 2009. This net cash inflow primarily reflects gross cash generated from operations of RMB255.1 million net of interest and income tax paid and interest received of RMB72.1 million.

Cash generated from operations was RMB255.1 million, while our cash generated from operations before working capital changes was RMB264.8 million. The difference of RMB9.7 million represents working capital usage over the year, and was primarily due to (a) an increase in trade and other receivables of RMB123.7 million in line with increase in sales over the year, (b) an increase in restricted cash of RMB25.0 million representing bank deposits for issuing bills payable during the year, and (c) an increase in inventories of RMB7.6 million in anticipation of stronger sales over the next year, partially offset by (d) an increase in trade and other payables of RMB146.6 million in line with increased purchase of raw materials for greater sales during the year.

For the year ended December 31, 2008. Our net cash generated from operating activities was RMB147.5 million in 2008. This net cash inflow primarily reflects gross cash generated from operations of RMB209.3 million net of interest and income tax paid and interest received of RMB61.8 million.

Cash generated from operations was RMB209.3 million, while our cash generated from operations before working capital changes was RMB190.5 million. The difference of RMB18.8 million represents decrease in working capital over the year, and was primarily due to (a) a decrease in trade and other receivables of RMB10.6 million as a result of our improved payment collection, (b) a decrease in inventories of RMB22.1 million in anticipation of reduced sales over the next year amidst the global financial crisis, partially offset by (c) a decrease in trade and other payables of RMB0.6 million mainly due to increase in bills payable, and (d) an increase in restricted cash of RMB13.3 million representing bank deposits for issuing bills payable during the year.

Cash flows from investing activities

For the six months ended June 30, 2011. Our net cash used in investing activities was RMB32.1 million for the six months ended June 30, 2011. This net cash outflow primarily reflected (a) purchase of property, plant and equipment of RMB27.9 million over the period as a result of our expansion of production capacities, (b) purchase of available-for-sale financial assets of RMB10.5 million which represents investments in short-term money market financial products, partially offset by (c) proceeds from government grants of RMB5.2 million.

For the six months ended June 30, 2010. Our net cash used in investing activities was RMB68.4 million for the six months ended June 30, 2010. This net cash outflow primarily reflected (a) purchase of property, plant and equipment of RMB75.7 million over the period as a result of our expansion of production capacities, partially offset by repayment from third parties of RMB5.3 million representing the repayment of some of the loan to third parties.

For the year ended December 31, 2010. Our net cash used in investing activities was RMB99.1 million in 2010. This net cash outflow primarily reflected (a) purchase of property, plant and equipment of RMB115.2 million over the year as a result of our expansion of production capacities, partially offset by (b) repayment from third parties of RMB5.3 million representing the repayment of some of the loan to third parties, (c) proceeds from related parties of RMB5.8 million representing repayment of some of the loan to related parties, and (d) proceeds from the sale of property, plant and equipment of RMB5.6 million.

For the year ended December 31, 2009. Our net cash used in investing activities was RMB126.9 million in 2009. This net cash outflow primarily reflected (a) purchase of property, plant and equipment of RMB121.0 million over the year as a result of our expansion of production capacities, (b) loan to related parties of RMB38.5 million, (c) loan to third parties of RMB5.3 million, partially offset by (d) repayments from related parties of RMB35.6 million representing repayment of some of the loan to related parties.

For the year ended December 31, 2008. Our net cash generated from investing activities was RMB68.8 million in 2008. This net cash inflow primarily reflected (a) repayments from third parties of RMB44.6 million, (b) proceeds from sale of property, plant and equipment of RMB40.0 million in relation to the sale of our hydroelectric plant in 2007, (c) proceeds from disposal of Dacheng, Yuhang and Rongchang Trading of RMB14.5 million, Rongchang Trading was our wholly owned subsidiary which we have disposed of to independent third parties during the Track Record Period. The consideration was based on the amount of the registered capital of Rongchang Trading at the time of the disposal. The acquirer of Rongchang Trading as an independent third party, has no relationship with the Company, its subsidiaries, their directors or employees or any of their respective associates since its disposal, and the Group did not make any sales to Rongchang Trading after its disposal, (d) repayments from related parties of RMB5.0 million representing repayment of loan made to related parties in 2007, partially offset by (e) purchase of property, plant and equipment of RMB37.9 million over the year as a result of our expansion of production capacities.

Cash flows from financing activities

For the six months ended June 30, 2011. Our net cash used in financing activities was RMB114.1 million for the six months ended June 30, 2011. During the period, we made repayment of bank loans of RMB242.2 million, repayment of borrowings to related parties of RMB5.7 million, payment of our Global Offering expenses of 9.6 million and declared and paid a special dividend of RMB100.4 million. This was partially offset by new bank loans of RMB244.3 million.

For the six months ended June 30, 2010. Our net cash generated from financing activities was RMB213.4 million for the six months ended June 30, 2010. During the period, new bank loans of RMB324.1 million were raised, a capital injection of RMB12.4 million was made in relation to the subscription of shares in Fujian Rongchang, and we also raised RMB216.6 million from borrowings from related parties. This was partially offset by repayment of bank loans of RMB326.3 million, and repayment of borrowings to related parties and third parties of RMB3.4 million and RMB10.0 million, respectively.

For the year ended December 31, 2010. Our net cash generated from financing activities was RMB135.8 million in 2010. During the year, new bank loans of RMB452.9 million were raised, a capital injection of RMB12.4 million was made in relation to the subscription of shares in Fujian Rongchang, and we also raised RMB226.0 million from borrowings from related parties. This was partially offset by repayment of bank loans of RMB533.3 million, and repayment of borrowings to related parties and third parties of RMB11.0 million and RMB12.1 million, respectively.

For the year ended December 31, 2009. Our net cash generated from financing activities was RMB71.7 million in 2009. During the year, new bank loans of RMB502.5 million were raised and a capital injection of RMB37.5 million was made in relation to the subscription of shares in Fujian Rongchang. We also raised RMB91.7 million from borrowings from third parties. This was partially offset by repayment of bank loans of RMB371.5 million, repayment of borrowings to third parties of RMB168.4 million, and dividends paid of RMB20.1 million.

For the year ended December 31, 2008. Our net cash used in financing activities was RMB207.7 million in 2008. During the year, we repaid bank loans of RMB396.1 million, borrowings from third parties of RMB212.3 million and borrowings to related parties of RMB98.3 million. We paid RMB36.1 million in relation to the acquisition of additional interests in Fuzhou Yihua and Yuhang. We also paid dividends of RMB 20.0 million. This was partially offset by the raising of new bank loans of RMB300.4 million, borrowings from third parties of RMB213.6 million and borrowings from related parties of RMB41.1 million.

NET CURRENT ASSETS (LIABILITIES)

The following table sets out details of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2008	2009	2010	2011	2011
					(unaudited)
	(RMB in thousands)				
Current assets:					
Inventories	48,013	56,308	107,527	103,740	100,614
Trade and other receivables	124,419	253,576	269,910	300,197	307,812
Restricted cash	13,300	38,293	30,895	38,787	38,510
Cash and cash equivalents	68,034	195,834	397,231	392,780	524,953
	253,766	544,011	805,563	835,504	971,889
Current liabilities:					
Trade and other payables	227,086	310,452	507,493	286,248	266,277
Current income tax liabilities	9,692	16,023	22,450	24,031	24,812
Borrowings	272,719	295,712	233,580	235,692	310,592
	509,497	622,187	763,523	545,971	601,681
Net current (liabilities)/assets	**(255,731)**	**(78,176)**	**42,040**	**289,533**	**370,208**

As of December 31, 2008, 2009 and 2010 and June 30, 2011, we had net current liabilities of approximately RMB255.7 million, RMB78.2 million, and net current assets of approximately RMB42.0 million and RMB289.5 million, respectively. Our net current liability positions primarily reflected our historical reliance on short-term loan facilities to finance the construction and acquisition of our hydroelectric power plants. Our net current liabilities have continuously declined over the Track Record Period and have resulted in net current assets as of June 30, 2011 primarily as a result of our increase in net profit and improved cash flow from operations over the period, as well as capital injections from shareholders in 2009 and 2010. In addition, we completed expansions of production capacity for caustic soda to 80,000 tons at Fujian Rongchang and production capacity for hydrogen peroxide to 100,000 tons at Fujian Rongping in November 2010 and December 2010, respectively, which have and are expected to further enhance our profitability and cash flows. See "Business – Expansion Plans." Our current ratio (calculated as current assets divided by current liabilities), has increased from 0.50 as of December 31, 2008 to 1.53 as of June 30, 2011, primarily reflecting the improvement in our net current liabilities position described above.

As at September 30, 2011, we had net current assets of RMB370.2 million. The key components of our current assets as of such date included cash and cash equivalents of RMB525.0 million, trade and other receivables of RMB307.8 million and inventories of RMB100.6 million. The key components of our current liabilities as of such date included trade and other payables of RMB266.3 million and borrowings of RMB310.6 million. Our net current assets increased by 27.9% from RMB289.5 million as of June 30, 2011 to RMB370.2 million as of September 30, 2011, primarily due to an increase in cash and cash equivalents of RMB132.2 million as a result of improved net profit and operating cash flow from operations, and a decrease of trade and other payables of RMB19.9 million as a result of an increase in repayment to suppliers. This was partially offset by an increase in borrowings of RMB74.9 million as we acquired more short-term borrowings than we had paid off during the period.

Inventories

Our inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Our inventories comprise raw materials, semi-finished goods 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 monthly review of our inventory levels. Our procurement and sales plans are also adjusted periodically based on such monthly inventory reviews. We have not experienced any material shortage of inventory during the Track Record Period.

The following table sets forth our inventory balance as of the dates indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in thousands)			
Raw materials[1]	11,360	19,756	18,735	21,755
Semi-finished goods[2]	30,696	24,804	78,157	73,017
Finished goods[3]	6,655	11,748	10,635	8,968
	48,711	56,308	107,527	103,740
Provision for write-down of inventories	(698)	—	—	—
Total	**48,013**	**56,308**	**107,527**	**103,740**

Notes:

(1) Raw materials inventories mainly represent coal, industrial salt, urea, potassium chloride and foaming agent.

(2) Semi-finished goods inventories relate to hydrogen peroxide, caustic soda, biurea and sodium chlorate, that are not for sale and held for further production of its downstream product.

(3) Finished goods inventories relate to all our products that are held for sale.

Our inventories decreased by 3.5% to RMB103.7 million as of June 30, 2011 from RMB107.5 million as of December 31, 2010 primarily due to a decrease in semi-finished goods and finished goods as we maintain prudent inventory controls.

Our inventories increased by 91.0% to RMB107.5 million as of December 31, 2010 from RMB56.3 million as of December 31, 2009 primarily due to increase in semi-finished goods, namely, working solution to be used in the production of hydrogen peroxide in relation to the production launch of our expanded hydrogen peroxide production capacity at Fujian Rongping in November and December 2010.

Our inventories increased by 17.3% to RMB56.3 million as of December 31, 2009 from RMB48.0 million as of December 31, 2008. The increase was primarily due to an increase in the inventory of raw materials in anticipation of stronger sales in the next year and an increase in finished goods inventory reflecting higher utilization rate of our production facilities.

As of September 30, 2011, approximately RMB68.1 million or 65.7% of our inventories as of June 30, 2011 had been used or sold. The majority of the remaining RMB34.1 million or 33.9% of our inventories as of September 30, 2011 relates to the additional working solution we purchased at the end of 2010 for the production launch of our expanded hydrogen peroxide production capacity at Fujian Rongping. This working solution acts as a medium for hydrogen peroxide production and will remain within our production system, in our production pipeline and equipment.

Trade and other receivables

Trade and other receivables consist of trade receivables, prepayments and other receivables. Trade receivables mainly represent the balances due from our customers to which we generally grant 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 and 30 to 90 days for customers of our ADC foaming agent. Prepayments mainly represent prepayments made to suppliers of raw materials. Other receivables mainly represent loans and advances and receivables in relation to asset disposals.

The following table sets forth our trade and other receivables of the dates indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in thousands)			
Trade receivables	112,230	239,450	257,368	275,004
Prepayments	6,985	4,699	10,499	23,913
Other receivables(1)	5,204	9,427	2,043	1,280
Total	**124,419**	**253,576**	**269,910**	**300,197**

Note:

(1) Include loans to third parties, which are independent third party suppliers, that are non-interest bearing, unsecured and repayable on demand. See Note 13(c) in the Accountant's Report in Appendix I to this prospectus. Although inter-company loans are generally not permitted in China, our PRC legal adviser confirmed that, since the loans in question were non-interest bearing and had been fully repaid as at December 31, 2010, there should be no adverse legal consequence to the Group.

Our trade and other receivables increased by 11.2% to RMB300.2 million as of June 30, 2011 from RMB269.9 million as of December 31, 2010. The increase was primarily due to an increase in trade receivables from customers in line with our increase in sales for the period, and an increase in prepayments in relation to our Global Offering expenses.

Our trade and other receivables increased by 6.4% to RMB269.9 million as of December 31, 2010 from RMB253.6 million as of December 31, 2009. The increase was primarily due to an increase in trade receivables and prepayments. Increase in prepayments represented increase in value added tax input credits mainly derived from the purchase of working solution to be used in the production of hydrogen peroxide in relation to the production launch of our expanded hydrogen peroxide production capacity at Fujian Rongping. This value added tax input credit will be used to offset future value added tax. The increase was partially offset by a decrease in other receivables, primarily due to a decrease of loans to third parties, and a decrease in prepayment to raw material suppliers due to our increased credit.

Our trade and other receivables increased by 103.8% to RMB253.6 million as of December 31, 2009 from RMB124.4 million as of December 31, 2008. The increase was primarily due to an increase in trade receivables from customers in line with our increase in sales for the year.

The following table sets forth the aging analysis of our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in thousands)			
Within three months	110,935	237,796	256,817	274,363
Between four and six months	1,145	1,654	404	608
Between seven and 12 months	150	—	147	33
	112,230	**239,450**	**257,368**	**275,004**

We have evaluated the credit situation of our specific customers to which such receivables relate and expect to fully recover such receivables. As of each of the balance sheet date above, we have not made any provision for impairment of such receivables.

As of September 30, 2011, we had collected approximately RMB275.0 million or 99.9% of the trade receivables that were outstanding as of June 30, 2011.

Trade and other payables

Trade payables mainly represent the balances due to our suppliers of raw materials to which we are generally granted credit terms ranging from 30 to 90 days.

The following table sets forth our trade and other payables balance as of the dates indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in thousands)			
Trade payables	31,403	90,708	93,517	95,250
Bills payable	30,980	115,634	128,030	140,343
Other payables	164,703	104,110	285,946	50,655
Total	**227,086**	**310,452**	**507,493**	**286,248**

Our trade and other payables decreased by 43.6% to RMB286.2 million as of June 30, 2011 from RMB507.5 million as of December 31, 2010. The decrease was primarily due to a decrease in other payables due to related parties, namely, the settlement and conversion into equity of a loan from our Parent Company of RMB215.0 million, as well as a decrease in other payables to third parties. These decreases were partially offset by an increase in bills payable to suppliers.

Our trade and other payables increased by 63.5% to RMB507.5 million as of December 31, 2010 from RMB310.5 million as of December 31, 2009. The increase was primarily due to increase in other payables due to related parties as we made borrowings from related parties during the period. Bills payable also increased as we made use of bank guaranteed notes for our purchases from suppliers. These increases were partially offset by a decrease in other payables due to third parties as we decreased our borrowings from third parties during the period as well as a decrease in payables for water and electricity.

Our trade and other payables increased by 36.7% to RMB310.5 million as of December 31, 2009 from RMB227.1 million as of December 31, 2008. The increase was primarily due to increases in trade and bills payables as we increased outsourcing of ADC foaming agent production during the year which generally have longer credit terms of up to 90 days, partially offset by a decrease in other payables due to third parties as we decreased our borrowings from third parties during the year.

The following table sets forth the aging analysis of our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in thousands)			
Within three months	25,876	87,963	92,617	95,209
Between four and six months	4,286	2,715	437	41
Between seven and 12 months	1,178	30	463	—
Between one and two years	63	—	—	—
	31,403	**90,708**	**93,517**	**95,250**

As of September 30, 2011, we had paid approximately RMB95.3 million or 100.0% of the trade payables that were outstanding as of June 30, 2011.

Turnover Analysis

The following table sets forth our inventories, trade receivables and trade and bills payables turnover days for the periods indicated:

	For the year ended December 31,			For the six months ended
	2008	2009	2010	June 30, 2011
Inventory turnover days(1)	43	26	34	39
Trade receivables turnover days(2)	63	64	75	67
Trade and bills payables turnover days(3)	34	67	88	84

Notes:

(1) Calculated using the average of the beginning and ending inventory balances for the period, divided by cost of sales for the period, multiplied by the number of days for the relevant period.

(2) Calculated using the average of the beginning and ending trade receivables balances for the period, divided by revenue for the period, multiplied by the number of days for the relevant period.

(3) Calculated using the average of the beginning and ending trade and bills payables balances for the period, divided by the cost of sales for the period, multiplied by the number of days for the relevant period.

The decrease in inventory turnover days in 2009 primarily reflects our efforts in implementing prudent inventory controls in light of increasing sales during the Track Record Period and reduction in raw material storage. We generally maintain over two weeks' worth of sodium chlorate in our warehouses to ensure a stable supply for our customers. The increase in inventory turnover days in 2010 was primarily due to increase in semi-finished goods, namely, working solution to be used in the production of hydrogen peroxide in relation to the production launch of our expanded hydrogen peroxide production capacity at Fujian Rongping. The increase in inventory turnover days for the six months ended June 30, 2011 was primarily due to an increase in semi-finished goods, namely working solution, to be used in production for the launch of our expanded hydrogen peroxide production capacity at Fujian Rongping in December 2010.

We generally maintain trade receivables turnover days of around 60 to 90 days and we maintain a prudent payment collection policy. Trade receivables turnover days increased to 75 days for the year ended December 31, 2010 primarily due to a significant increase in sales of ADC foaming agent which generally has longer credit terms of up to 90 days. This has since decreased to 67 days for the six months ended June 30, 2011 through our effort in implementing prudent collection controls in light of increasing sales.

Trade and bills payables turnover days increased to 67 days in 2009 primarily due to increase in our purchase of raw materials and the use of bank guaranteed notes. As of December 31, 2008 and 2009, bills payable for such purchases amounted to RMB31.0 million and RMB115.6 million, respectively, were issued. The increase in trade and bills payables turnover days is also attributable to our efforts in maintaining good relationships with suppliers, some of which granted us longer repayment periods of over 60 days. Trade and bills payables turnover days further increased to 88 days for the year ended December 31, 2010 primarily due to increase in the use of letter of credit and bank guaranteed notes which generally provides for a credit period of 90 to 180 days. Trade and bills payables turnover days remained relatively stable for the six months ended June 30, 2011 at 84 days.

WORKING CAPITAL

Taking into account the financial resources available to us, including internally generated funds, available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the opinion that the Group has sufficient working capital for its present requirements and for at least the next 12 months from the date of this prospectus.

As of September 30, 2011, the total amount of undrawn banking facilities available to us was approximately RMB759.0 million.

INDEBTEDNESS

Borrowings

The following table sets forth our borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2008	2009	2010	2011	2011
					(unaudited)
	(RMB in thousands)				
Non-current:					
Secured bank borrowings	64,500	172,500	154,270	154,270	154,270
Current:					
Current portion of long-term secured bank borrowings	28,900	14,000	65,230	10,730	10,730
Short-term secured bank borrowings	243,819	281,712	168,350	224,962	299,862
	272,719	295,712	233,580	235,692	310,592
Total bank borrowings	**337,219**	**468,212**	**387,850**	**389,962**	**464,862**
Borrowings from third parties	86,705	10,000	589	—	—
Borrowings from related parties	11	—	215,012	—	—

As of December 31, 2008, 2009 and 2010 and June 30, 2011, our outstanding bank borrowings was RMB337.2 million, RMB468.2 million, RMB387.9 million and RMB390.0 million, respectively. The increase in bank borrowings as of December 31, 2009 primarily reflected our need for funds for our expansion plans. As of December 31, 2008, 2009 and 2010 and June 30, 2011, the weighted average effective interest rates of our bank borrowings were 8.02%, 6.47%, 6.03% and 5.79%, respectively. In 2010, we incurred borrowings from related parties of RMB215.0 million, mainly, a loan from our Parent Company. The purpose of the loan was to fund the various capital expenditures required for our operating subsidiaries, repay a portion of short-term debts, and for our working capital needs. As of the Latest Practicable Date, the loans from related parties had been fully settled through cash repayment and conversion into equity. Following the Global Offering, we expect to satisfy our funding needs with internally generated funds, bank borrowings and proceeds from the Global Offering.

In relation to our short-term bank borrowings, their interest rates are generally within the range of 5.36% to 7.67% per annum. During the Track Record Period, we incurred such short-term borrowings for the purposes of raw material purchases and working capital needs. As of June 30, 2011, our short-term bank borrowings have maturity dates ranging from July 2011 to June 2012.

Commercial banks in China typically require guarantees or security interests to lend to us. As of December 31, 2008, 2009 and 2010 and June 30, 2011, all of our outstanding borrowings were secured by our buildings, land use rights, machinery, trade receivables and guarantees provided by us, related parties and third parties. During the Track Record Period, we had not delayed or defaulted in repaying our bank borrowings.

The loans from third parties and related parties are non-interest bearing, unsecured and repayable on demand.

As of September 30, 2011, which is the latest practicable date for purposes of the indebtedness statement, our outstanding borrowings was RMB464.9 million. The increase in borrowings as of September 30, 2011 primarily reflected the increase in bank borrowings of RMB74.9 million.

Our gearing ratio (calculated as net debt divided by total capital) as of December 31, 2008, 2009 and 2010 was 52%, 37% and 24%, respectively. We had a net cash position as of June 30, 2011. The consecutive decrease of our gearing ratio primarily reflected our historical reliance on short-term loan facilities to finance the construction and acquisition of our hydroelectric power plants. Our gearing ratio has continuously declined as of December 31, 2008, 2009 and 2010 and June 30, 2011 primarily as a result of our increase in net profit and improved cash flow from operations over the period, as well as capital injections from shareholders in 2009 and 2010. For details on how the gearing ratio is calculated, please refer to Note 4.2 to the Accountant's Report set out in Appendix I to this prospectus.

The following table sets forth the maturity profiles of our bank borrowings as of the dates indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in thousands)			
Within one year	272,719	295,712	233,580	235,692
Between one and two years	10,000	70,730	16,960	16,960
Between two and five years	54,500	101,770	137,310	137,310
Total	**337,219**	**468,212**	**387,850**	**389,962**

Contingent Liabilities

As of December 31, 2008, 2009 and 2010 and June 30, 2011, we provided guarantees to PRC banks for loans with an aggregate principal amount of RMB11.6 million, RMB6 million, nil and nil, respectively in respect of financial guarantees provided for third parties.

Other than as disclosed in this prospectus and apart from intra-group liabilities and normal trade payables, we did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdraft and liabilities under acceptance or other similar indebtedness, debenture, mortgage, charges or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities as of September 30, 2011, which is the latest practicable date for purposes of the indebtedness statement.

CAPITAL EXPENDITURES

Capital expenditures over the Track Record Period

Our operations are capital intensive, and we regularly make capital expenditures to expand our operations, maintain our equipment, increase our operating efficiency and comply with environmental laws and regulations. The following table sets forth our historical capital expenditures for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2008	2009	2010	2011
	(RMB in thousands)			
Property, plant and equipment	21,287	117,687	142,332	15,669
Land use rights	—	3,296	3,484	—
Total	**21,287**	**120,983**	**145,816**	**15,669**

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.

CONTRACTUAL OBLIGATIONS

As of June 30, 2011, our contractual obligations in connection with our operations, other than loans and borrowings, amounted to RMB8.3 million, primarily arising from contracted construction fees and other capital commitments. The following table sets out our contractual obligations, other than loans and borrowings as of the dates indicated:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in thousands)			
Operating lease commitments[1]:				
No later than one year	325	114	1,031	921
Later than one year and no later than five years	—	—	615	—
	325	114	1,646	921
Authorized and contracted but not provided for:				
Property, plant and equipment[2]	253,694	137,325	16,124	7,342
Total	**254,019**	**137,439**	**17,770**	**8,263**

Notes:

(1) Relates to our leases of several premises at Ping An Building No. 88 Wuyi Zhong Road, Taijiang District, Fuzhou City. See "Business — Real Property."

(2) Relates to our designed annual production capacity expansion of caustic soda to 80,000 tons at Fujian Rongchang and hydrogen peroxide to 100,000 tons at Fujian Rongping. See "Business — Expansion Plans," and other authorized and contracted general capital expenditures that had not been provided for.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Except for the contingent liabilities set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholder's equity, or that are not reflected in our consolidated financial information. We do not have any variable interests in any unconsolidated entity that provides financing, liquidity or credit support to us, or engages in leasing, hedging or research and development services with us.

RELATED PARTY TRANSACTIONS

It is the view of our Directors that each of the related party transactions set out in Note 34 of section II to the Accountant's Report in Appendix I to this prospectus was conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties.

MARKET RISKS

We are exposed to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and interest rate risk, as set out below. We regularly monitor our exposure to these risks and as of the Latest Practicable Date, did not hedge or consider necessary to hedge any of these risks.

Foreign exchange risk

We are exposed to foreign exchange risk as some of our business transactions, assets and liabilities are denominated in a currency other than the Renminbi, our functional currency. For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, approximately 14%, 12%, 16% and 16% of our sales were denominated in currencies other than Renminbi. As of December 31, 2008, 2009 and 2010 and June 30, 2011, approximately RMB3.2 million, RMB5.6 million, RMB10.5 million and RMB13.6 million of trade receivables and other receivables were denominated in U.S. dollars, respectively, and RMB0.6 million, RMB27.4 million, RMB3.3 million and RMB8.2 million of cash and cash equivalents were denominated in U.S. dollar, respectively. We believe that our foreign currency denominated assets and liabilities are relatively insignificant and we do not have a foreign currency hedging policy. We will, however, monitor our foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

Our credit risk exposure is primarily attributable to our cash and cash equivalents, restricted cash, and trade and other receivables. We have no significant concentrations of credit risk. We have policies in place to monitor the exposures to these credit risks on an on-going basis.

As of December 31, 2008, 2009 and 2010 and June 30, 2011, approximately 99%, 94%, 96% and 94% of our restricted cash and cash and cash equivalents were held in state-owned financial institutions, which we believe are of high credit quality. For credit exposures to customers, most of our sales are settled in cash or by check upon delivery. The carrying amount of receivables included in the consolidated balance sheet represents our maximum exposure to credit risk in relation to these financial assets. We have policies in place to ensure that credit sales are only made to customers with appropriate credit history and we perform periodic credit evaluations on our customers and monitor the utilization of credit terms by them.

Liquidity risk

Our policy is to monitor and maintain a level of cash and cash equivalents we deem adequate to finance our operations and mitigate the effects of fluctuations in cash flows. We expect to satisfy our future cash flow needs through internally generated funds and bank borrowings, as well as equity financings. We do not expect difficulties in renewing bank borrowings. In terms of trade payables, we generally have a credit term of between 30 to 90 days to settle payments with suppliers. The following table provides our contractual undiscounted cash flows as of June 30, 2011. Balances due within 12 months are equal to their carrying balances, as the impact of discounting is not significant:

As of June 30, 2011	Less than one year	Between one and two years	Between two and five years
		(RMB in thousands)	
Borrowings and interest payable	251,569	25,431	149,147
Trade and other payables	285,516	—	—
Total	**537,085**	**25,431**	**149,147**

Interest rate risk

We are mainly exposed to interest rate risk resulting from fluctuations in interest rates from our variable rate borrowings, restricted cash and bank deposits. As of June 30, 2011, all restricted cash, bank deposits and RMB165 million of our bank borrowings were at variable rates. Increases in interest rates would increase interest expenses relating to our outstanding variable rate borrowings and increase the cost of new debt. We will monitor our interest rate exposure when entering into any financing, renewal of existing borrowings and alternative financing transactions. Based on total bank borrowings, deposits and bank balances as of June 30, 2011, an increase or decrease of the effective interest rate by 50 basis points with all other variables held constant, would decrease or increase our profit for the period ended June 30, 2011 by approximately RMB0.2 million. We do not currently hedge any of our interest rate risk.

DIVIDEND POLICY

We declared and paid cash dividends of approximately RMB20.0 million, RMB20.1 million, nil and RMB100.4 million to our shareholders for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, respectively.

Pursuant to the Companies Law and our Articles of Association, we, through a general meeting, may declare final dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. Dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law, provided that no dividend may be paid out of the share premium account unless, immediately following the date on which the dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

Future dividend payments will also depend upon the availability of dividends received from our subsidiary companies in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiary companies may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiary companies may enter into in the future.

The amount of dividend actually distributed to our shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our shareholders. Our Board has an absolute discretion to recommend any dividend for any year. There is no assurance that dividends of any amount will be declared or distributed in any year.

As of the Latest Practicable Date, we had no plans to distribute the retained earnings of the PRC subsidiaries of the Company and as such, no provision for withholding tax had been made. Please refer to Note 11 to the Accountant's Report set out in Appendix I to this prospectus.

PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix IV to this prospectus. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as of September 30, 2011. The full text of their letters, summary of valuation and valuation certificates regarding such property interests are set out in Appendix IV to this prospectus.

A reconciliation of the net book value of the relevant property interests as of June 30, 2011 to their fair value as stated in Appendix IV to this prospectus is as follows:

	RMB'000
	(unaudited)
Buildings included in property, plant and equipment as of June 30, 2011	360,942
Land use rights as of June 30, 2011	78,213
Net book value as of June 30, 2011	439,155
Movement from July 1, 2011 to September 30, 2011	
Add: additions during the period	8,694
Less: depreciation and amortization during the period	(3,983)
Net book value as of September 30, 2011	443,866
Valuation surplus	431
Valuation as of September 30, 2011	444,297

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2011

On the bases and assumptions set out in the section headed "Profit Forecast" in Appendix III to this prospectus and, in the absence of unforeseen circumstances, certain profit forecast data of the Group for the year ending December 31, 2011 is set out below:

Forecast consolidated profit attributable to equity holders of our Company	Not less than RMB260.0 million
Unaudited forecast earnings per Share on a pro forma fully diluted basis	RMB0.325

The calculation of the unaudited forecast earnings per Share on a pro forma fully diluted basis is based on the unaudited forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2011, assuming that the Global Offering had been completed on January 1, 2011 and a total of 800,000,000 Shares were in issue and outstanding during the entire year ending December 31, 2011. The calculation takes no account of any shares which may be issued upon exercise of the Over-allotment Option or the options which may be granted in the Pre-IPO Share Option Scheme and the Share Option Scheme.

The earnings per Share information as disclosed in the financial information section of the Accountant's Report set out in Appendix I to this Prospectus only represented the historical earnings per Share based on the historical number of Shares of the Company before the Global Offering and the Capitalization Issue. **Investors are cautioned that the historical earnings per Share is not comparable to the pro forma forecast earnings per Share as presented above and elsewhere in this prospectus**.

DISTRIBUTABLE RESERVES

As our Company was only incorporated on November 24, 2010, there were no reserves available for distribution to shareholders as of June 30, 2011.

NO MATERIAL ADVERSE CHANGE

We confirm that there has been no material adverse change in our financial or trading position since June 30, 2011, being the date of the latest audited consolidated financial position of our Group as set out in the Accountant's Report in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that as of the Latest Practicable Date, there were no circumstances that would give rise to disclosure requirements under Listing Rules 13.13 to 13.19 had the Shares been listed on the Stock Exchange.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets which has been prepared on the basis of the notes set out below, for the purpose of illustrating the effect of the Global Offering as if the Global Offering had taken place on June 30, 2011. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the adjusted net tangible assets of the Group as of June 30, 2011 or at any future date. It is based on the consolidated net assets as of June 30, 2011 as shown in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below:

	Audited consolidated net tangible assets attributable to equity holders of the Company as of June 30, 2011[(1)]	Estimated net proceeds from the Global Offering[(2)]	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company per Share[(3)]	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$2.45 per Share	901,962	328,745	1,230,707	1.54	1.89
Based on an Offer Price of HK$3.25 per Share	901,962	459,299	1,361,261	1.70	2.09

Notes:

(1) The audited consolidated net tangible assets attributable to equity holders of the Company as of June 30, 2011 are extracted from the Accountant's Report in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as of June 30, 2011 of RMB902.0 million with an adjustment for intangible assets as of June 30, 2011 of nil.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.45 and HK$3.25 per Share, respectively, after the deduction of the estimated underwriting fees and other related fees and expenses, and takes no account of any Shares which may be issued pursuant to the Over-allotment Option or the options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. The estimated net proceeds from the Global Offering are translated at the exchange rate of HK$1: RMB0.81596.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 800,000,000 Shares were in issue assuming that the Capitalization Issue and the Global Offering had been completed on June 30, 2011 but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option or the options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. The unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company per Share are translated at the exchange rate of HK$1: RMB0.81596.

(4) Details of the valuations of the Group's properties as of September 30, 2011 are set out in the Property Valuation Report in Appendix IV to this prospectus. The revaluation surplus or deficit of properties has not been incorporated in the Group's consolidated financial information for the six months ended June 30, 2011 or the above unaudited pro forma adjusted consolidated net tangible assets because it is the Group's accounting policy to state the property interests at cost less accumulated depreciation/amortization and impairment rather than at revalued amounts. Had the land use rights and buildings been stated at such valuation, an additional depreciation of RMB14,367 per annum would be recorded.

(5) No other adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to June 30, 2011.