

HISTORY, REORGANIZATION AND GROUP STRUCTURE

HISTORY AND DEVELOPMENT

Business milestones

The following events are the major milestones of the Group since its establishment:

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| 2002 – 2003 | <ul style="list-style-type: none">• Established Hong Kong Sijia, as the holding company of the Group and Fujian Sijia• Consolidated interests in raincoat and general protective clothing manufacturing entities, namely Fujian Si Tai Di and Smile in Rain, into the Group• Commenced production of the Group’s first range of products such as raincoats, general protective clothing and waterproof materials at Fuzhou Plant |
| 2004 | <ul style="list-style-type: none">• Passed the European Standard (EN471) for high visibility clothing |
| 2005 – 2006 | <ul style="list-style-type: none">• Named as New High Technology Enterprise in Fujian Province (福建省高新技術企業) by Fujian Provincial Department of Science Technology in September 2006 and Technologically Advanced Foreign-owned Enterprise (外商投資先進技術企業) by Fujian Provincial Department of Foreign Trade and Economic Cooperation in November 2006• Made strategic decision in 2006 to focus on development and sale of “Sijia” branded Reinforced Materials• Established Xiamen Grandsoo as holding company of Xiamen Plant• Awarded the Group’s first PRC national utility model patent |
| 2007 | <ul style="list-style-type: none">• Obtained the gold award for the Group’s Reinforced Materials at the 6.18 Cross-strait Trade Union Innovation Exhibition (海峽兩岸職工創新成果展), an annual cross-straits event between PRC and Taiwan that honor innovative products organized by All China Federation of Trade Union (中華全國總工會)• Began small scale production of End Products |
| 2008 | <ul style="list-style-type: none">• Disposed of raincoat and general protective clothing manufacturing business of Fujian Sijia and interests in Fujian Si Tai Di and Smile in Rain• Fujian Sijia recognized as Top 10 of major industries of Fujian Province (福建工業主要行業前十強) by Enterprise Assessment Centre and Association of Fujian Province in August 2008 |

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- Its high strength polyester composite materials was awarded Second Prize of Science and Technology Progress in Fuzhou (福州市科技進步二等獎) by The People's Government of Fuzhou
 - "Sijia" brand of Reinforced Materials recognized as a Fujian Famous Brand Product ("福建名牌產品") by The People's Government of Fujian
- 2009
- Commenced large scale production and sale of End Products at Xiamen Plant
 - Awarded Second Prize of Science and Technology Progress in Fuzhou (福州市科技進步二等獎) by The People's Government of Fuzhou and its air tightness material was awarded Independent Innovative Products in Fujian Province (福建省自主創新產品) by Office of Science and Technology in Fujian Province, Economic and Trade Commission in Fujian Province, Development and Reform Commission in Fujian Province, Department of Finance in Fujian Province
 - Established sales representative offices in Guangzhou, Weihai and Zhengzhou.

Shareholding history of the companies within the Group

The Group was found in 2002 by Mr. Lin and Mrs. Lin. Mr. Lin had worked for enterprises in PRC engaging in manufacturing of polymer materials and plastic related products since 1985. After accumulating years of experience in the polymer materials manufacturing industry, Mr. Lin identified the vast business opportunity for waterproof and breathable fabric materials in PRC and overseas and subsequently decided to start his own business in manufacture of such fabric materials in PRC through the setting up of Hong Kong Sijia and Fujian Sijia in 2002 and consolidating his interest in the raincoat and general protective clothing manufacturing business into the Group during 2002 and 2003.

Hong Kong Sijia

On 15 April 2002, Mr. Lin incorporated Hong Kong Sijia in Hong Kong to act as the then holding company of the Group. At the time of its incorporation, Mr. Lin and his wife, Mrs. Lin, each held as to 50% interests in Hong Kong Sijia and were also the directors of Hong Kong Sijia.

In November 2006, Mrs. Lin transferred her interests in Hong Kong Sijia to Mr. Lin at par value of HK\$1.00 each for a total consideration of HK\$5,000 and resigned as a director of Hong Kong Sijia. As at 31 December 2006, the consolidated net asset value of Hong Kong Sijia amounted to about RMB39.6 million.

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Mr. Lin and Mrs. Lin were ordinary residents in PRC. During the period between March 2007 and February 2008, Mr. Lin was principally engaged in the development of business of Xiamen Grandsoo and construction of Xiamen Plant since incorporation of Xiamen Grandsoo in mid 2006. In order to focus on the above and for the purpose of reducing the traveling and administrative burden on Mr. Lin in handling banking matters in Hong Kong relating to Hong Kong Sijia, Mr. Lam, a long time friend of Mr. Lin and a Hong Kong resident, replaced Mr. Lin to act as the sole director of Hong Kong Sijia in March 2007, and held the entire issued share capital of Hong Kong Sijia in trust for Mr. Lin which trust arrangement was evidenced by a duly stamped trust deed dated 28 November 2007. Under this trust deed, Mr. Lam agreed to hold the entire issued share capital of Hong Kong Sijia in trust for Mr. Lin and to assign such issued share capital at the request and costs of Mr. Lin back to Mr. Lin or to such person or persons at such time or times and in such manner as Mr. Lin shall direct. In addition, Mr. Lam shall serve as a director of Hong Kong Sijia subject to the overall direction of Mr. Lin. The management period is terminable by Mr. Lin or Mr. Lam upon giving reasonable advance notice to the other.

Mr. Lam was Mr. Lin's secondary school teacher in PRC in 1970's. Since then, Mr. Lin and Mr. Lam have kept contact and maintained a good relationship between them. In 1981, Mr. Lam and Mrs. Lam started to reside in Hong Kong and they both worked in weaving and dyeing factories in Hong Kong for nearly 20 years. After that, Mrs. Lam retired to become a housewife. In August 2001, Mr. Lam set up and acted as the chairman and sole shareholder of Fujian De Ming He Plastics Ltd (福建德銘和塑膠有限公司) (which changed its name to Long Shi Teng (Fujian) Sports Utilities Co Ltd (龍仕騰(福建)運動用品有限公司) ("**Long Shi Teng**") in 2008), a company incorporated in PRC. Long Shi Teng was principally engaged in the manufacture and sale of raincoat and general protective clothing. The business of Long Shi Teng was operated independent from the management of the Group. Mr. Lam disposed of all his interests in Long Shi Teng on 22 July 2008.

During the Track Record Period, Fujian Sijia sold Materials to Long Shi Teng. For each of the three financial years ended 31 December 2006, 2007 and 2008, the total sales of the Group to Long Shi Teng amounted to about RMB1.1 million, RMB0.8 million and RMB2.8 million respectively.

In February 2008, Mr. Lin was re-appointed as the director of Hong Kong Sijia to replace Mr. Lam and the entire issued share capital of Hong Kong Sijia was transferred back to Mr. Lin at par value of HK\$1.00 per share each at a total consideration of HK\$10,000. As at 31 December 2007, the consolidated net asset value of Hong Kong Sijia amounted to about RMB90.7 million. Mr. Lam has never received any dividend, salary, directors fee or remuneration from Hong Kong Sijia or other subsidiaries of the Group.

Up to the Latest Practicable Date, there has not been any change in the issued share capital of Hong Kong Sijia since its incorporation.

Save for the business and positions held in the Group and as disclosed herein, Mr. Lin did not have any other business (including those interests held by other persons/entities in trust for him) or hold position in any company during the Track Record Period and up to the Latest Practicable Date.

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History and development of the Group's main PRC operating subsidiaries

Fujian Sijia

On 25 September 2002, Fujian Sijia Plastic Co., Ltd* (福建思嘉塑膠有限公司), the predecessor of Fujian Sijia, was established as a wholly foreign owned enterprise (“WFOE”) in Fuzhou City, Fujian Province, PRC with registered capital of HK\$10,000,000 and was wholly-owned by Hong Kong Sijia. Initially, Hong Kong Sijia had yet obtained the required funding for capital contribution to Fujian Sijia. In order to meet the prescribed time limit (i.e. 22 September 2003) for capital contribution to Fujian Sijia, Hong Kong Sijia transferred 20% and 23% unpaid registered capital in Fujian Sijia to (i) Fujian Si Tai Di, its then wholly owned subsidiary established in PRC and (ii) Xiamen Ming Lian Da, a PRC company wholly and beneficially owned by Mr. Lin Rongfeng, brother-in-law of Mr. Lin, respectively for nil consideration. The transfer of 23% unpaid registered capital to Xiamen Ming Lian Da was to enable Xiamen Ming Lian Da to inject its portion of registered capital into Fujian Sijia with the understanding that it would transfer back such registered capital to the Group at costs after the relevant funding had been obtained. Following such transfer, Fujian Si Tai Di and Xiamen Ming Lian Da contributed for their respective registered capital in Fujian Sijia. The remaining registered capital of HK\$5.7 million to be contributed by Hong Kong Sijia was funded by Mr. Lin from loans granted by Mr. Lin Wanpeng to Mr. Lin at the interest rate of 5% per annum without security, guarantee and specific repayment date nor any other loan covenants.

Mr. Lin Wanpeng is a fellow townsman of Mr. Lin and has been a close friend of Mr. Lin for years since they first met each other in Fuzhou, PRC, in 1992. Mr. Lin Wanpeng now resides in Hong Kong and is an angel investor. Mr. Lin Wanpeng is engaged in the business of private investment since he moved to Hong Kong in 2002. Mr. Lin Wanpeng agreed to provide loans to Mr. Lin for his funding to the Group when Mr. Lin approached him for assistance in February 2003. Mr. Lin Wanpeng had never participated in the management and operation of Fujian Sijia since its incorporation. Save as those disclosed herein, Mr. Lin Wanpeng did not have any business or family relationship, whether in past or present, with the Group, its Controlling Shareholders or their respective associates.

Upon completion of these transfers and capital contribution, as at 24 November 2003, Fujian Sijia was owned as to 57% by Hong Kong Sijia, 23% as to Xiamen Ming Lian Da and 20% as to Fujian Si Tai Di.

On 26 August 2004, the name of Fujian Sijia Plastic Co. Ltd was formally changed to Fujian Sijia Industrial Material Co., Ltd. (福建思嘉環保材料科技有限公司). A new Business License of Corporate Entity (企業法人營業執照) was issued to Fujian Sijia on 26 August 2004.

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Since the establishment of Fujian Sijia in 2002, the Group has placed strong emphasis on the development of new products technologies and application of technologically-advanced production techniques in order to differentiate itself from mass-market conventional materials providers. In September 2006, Fujian Sijia was recognized as a New High Technology Enterprise in Fujian Province (福建省高新技術企業).

On 14 October 2004, Hong Kong Sijia transferred 10% of its equity interests in Fujian Sijia to Fujian Si Tai Di. As at 10 January 2006, Fujian Sijia was owned as to 47% by Hong Kong Sijia, 23% as to Xiamen Ming Lian Da and 30% as to Fujian Si Tai Di.

For the purpose of facilitating the Group's strategy to dispose of its raincoat and general protective clothing business (Please refer to paragraph headed "*Companies disposed of during the Track Record Period*" below) and consolidating the shareholding of Fujian Sijia under Hong Kong Sijia, Xiamen Grandsoo, a wholly owned subsidiary of Hong Kong Sijia established in PRC, acquired 23% and 30% interest in Fujian Sijia from Xiamen Ming Lian Da and Fujian Si Tai Di for considerations of HK\$2,300,000 and HK\$3,000,000 respectively based on their relevant portion of the registered capital in Fujian Sijia on 5 March 2007. The above equity transfer was completed on 4 November 2007. As at 31 December 2007, the net asset value of Fujian Sijia was RMB98,453,000. On 4 December 2007, the registered capital of Fujian Sijia was increased from HK\$10,000,000 to HK\$40,000,000 by way of capitalization of retained earnings.

Save as disclosed in this section and in the section headed "Financial Information" (page 236) of this prospectus, Mr. Lin Rongfeng did not have, whether past or present, any other business or family relationship with the Group, its Controlling Shareholders or their respective associates. Mr. Lin Rongfeng had never participated in the management and operation of Fujian Sijia since its incorporation.

As at 4 December 2007, Fujian Sijia was held as to 47% by Hong Kong Sijia and as to 53% by Xiamen Grandsoo respectively.

At the end of 2007, the Group intended to apply for listing of shares of Fujian Sijia on a reputable stock exchange. In order to provide flexibility and to prepare for such listing process, it was resolved that Fujian Sijia be converted into a joint stock limited company which would meet the listing requirements of different stock exchanges and would give Fujian Sijia more flexibilities on choice of location of listing. Therefore, for the purpose of converting Fujian Sijia into a joint stock limited company, the Group invited four other independent investors (namely, Xiamen Kailai Trading, Fuzhou Jutai Trading, Fuzhou Sanfang Trading and YueHui Investment) to become shareholders of Fujian Sijia. By a share transfer agreement dated 17 December 2007, Xiamen Grandsoo transferred its 5% interest in Fujian Sijia to YueHui Investment for a consideration of HK\$3,000,000 based on an agreed premium over its relevant portion of the registered capital. By a joint investment agreement dated 17 December 2007 entered into between Hong Kong Sijia, Xiamen Grandsoo, Xiamen Kailai Trading, Fuzhou Jutai Trading, Fuzhou Sanfang Trading and YueHui Investment, the registered share capital of Fujian Sijia was increased from HK\$40,000,000 to HK\$50,000,000 and the increased HK\$10,000,000 registered capital were subscribed as to 20%, 30%, 25% and 25% by Xiamen Kailai Trading, Fuzhou Jutai Trading, Fuzhou Sanfang Trading and YueHui Investment respectively. All relevant approvals

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regarding the capital increment had been obtained. On 31 January 2008, the above equity transfer and the increase in registered capital were completed. The total investment costs of these four investors, including the above equity transfer, increase in registered capital and an additional proportionally contributed capital injection of RMB5,000,000 (recorded as reserve), amounted to RMB18,000,000. As at 31 December 2007, the net asset value of Fujian Sijia was RMB98,453,000.

Xiamen Kailai Trading, Fuzhou Jutai Trading, Fuzhou Sanfang Trading and YueHui Investment were introduced by friends of Mr. Lin. In view of the intended listing of shares of Fujian Sijia, the four investors were interested to inject some of their funds into Fujian Sijia as a means of investments seeking returns on short term basis. Fuzhou Jutai Trading's registered scope of business activity includes wholesale of clothing and daily utilities. Fuzhou Sanfang Trading's registered scope of business activities include wholesale of textile products and labour protective utilities. Xiamen Kailai Trading's registered scope of business activities include wholesale of fitness equipment, chemical industrial products. While YueHui Investment's registered scope of business activities include investments in industry, property, mining, finance, stocks and hotels. Each of the four investors is owned by Independent Third Parties and their businesses do not have any relationship with the Business of the Group. The Company confirms that save as disclosed herein, the four investors did not have any family or business relationships, whether past or present, with the Group, its controlling shareholder, Directors and any of their respective associates.

As a result, as at 31 January 2008, Fujian Sijia was held as to 37.6%, 38.4%, 4%, 6%, 5% and 9% by Hong Kong Sijia, Xiamen Grandsoo, Xiamen Kailai Trading, Fuzhou Jutai Trading, Fuzhou Sanfang Trading and YueHui Investment respectively.

On 20 November 2008, Hong Kong Sijia, through Xiamen Grandsoo, acquired an aggregate of 24% interests in Fujian Sijia held by Xiamen Kailai Trading, Fuzhou Jutai Trading, Fuzhou Sanfang Trading and YueHui Investment for a total consideration of RMB17,650,000 which consideration was arrived at after considering their total investment costs of about RMB18 million and their period of investment. It was also agreed that a premium of about RMB2.9 million would be paid to Xiamen Kailai Trading, Fuzhou Jutai Trading, Fuzhou Sanfang Trading and YueHui Investment as part of their investment return. This amount is classified as dividend in the accountants' report in Appendix I. The agreed premium of RMB 2.9 million was negotiated and determined based on an agreed 24% annual return on their investment cost calculated on a daily basis from the date of injection of funding to the date of disposal of their interests in Fujian Sijia. On 4 January 2009, the above equity transfers were completed. As at 31 December 2008, the net asset value of Fujian Sijia was RMB155,760,000. As a result, Fujian Sijia was held as to 62.4% by Xiamen Grandsoo and 37.6% by Hong Kong Sijia on 4 January 2009. On the same day, the registered share capital of Fujian Sijia was increased to HK\$65,000,000 from HK\$50,000,000 through capitalizing retained earnings.

Fujian Sijia did not declare or pay any dividend to Fujian Si Tai Di and Xiamen Ming Lian Da since its establishment. In 2008, Fujian Sijia declared and paid dividend amounted to RMB18,281,000 and RMB20,615,000 to Hong Kong Sijia and Xiamen Grandsoo, respectively, from its 2007 profit based on the equity interests of Hong Kong Sijia and Xiamen Grandsoo in Fujian Sijia as at 31 December 2007.

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Xiamen Grandsoo

Xiamen Grandsoo was incorporated by Hong Kong Sijia on 26 May 2006 under its former name Xiamen Hao Yuan Material Technology Co., Ltd* (廈門浩源環保材料科技有限公司), in Gaolin Industrial Site of Xiamen City, Fujian Province, PRC to be the local holding company for the new Xiamen Plant that the Group was preparing to set up at that time. Xiamen Grandsoo is a wholly foreign owned enterprise 100% owned by Hong Kong Sijia with registered and paid-up share capital of HK\$40 million. Mr. Lin raised the capital of HK\$40 million from Mr. Lin Wanpeng at the interest rate of 5% per annum without security, guarantee and specific repayment date nor any loan covenants. Pursuant to an agreement dated 16 October 2006 between Mr. Lin and Mr. Lin Wanpeng, Mr. Lin and Mr. Lin Wanpeng agreed to convert the loan of HK\$40 million together with the other outstanding sums of HK\$5.7 million due and owing by Mr. Lin to Mr. Lin Wanpeng and any accrued interests thereon into 15% of the issued share capital of Hong Kong Sijia, (or upon reorganization, the Company) prior to Listing. Pursuant to this agreement, Mr. Lin Wanpeng has no right to appoint any Director and no other special rights were granted to him. Such loan in the principal amount of HK\$45.7 million together with interests accrued thereon has been fully converted into Shares of the Company on 15 December 2009, amounting to 15% of the total issued Share capital of the Company immediately prior to completion of the Global Offering and about 11.25% of the total issued share capital of the Company immediately upon completion of the Global Offering (before exercise of the Over-allotment Option). The Shares held by Mr. Lin Wanpeng are subject to lock-up arrangements set out in the section headed “Underwriting” at pages from 260 to 262. Further details of such loan conversion are set out in the section headed “Corporate Reorganization” below. On 18 March 2008, Xiamen Hao Yuan Material Technology Co., Ltd* (廈門浩源環保材料科技有限公司) changed its name to Xiamen Grandsoo.

Mr. Lin Wanpeng had never participated in the management and operation of Xiamen Grandsoo since its establishment. The Company has no current intention to appoint Mr. Lin Wanpeng as a Director of the Company.

Companies disposed of during the Track Record Period

Smile in Rain and Fujian Si Tai Di were early raincoat and general protective clothing manufacturing companies established by Mr. Lin, whose interest was held in trust by Mr. Lam and Mrs. Lam respectively at the time of their incorporations. Since Mr. Lam and Mrs. Lam were Hong Kong residents, Smile in Rain and Fujian Si Tai Di were incorporated as foreign owned enterprises in PRC. This enabled Smile in Rain and Fujian Si Tai Di to enjoy the benefits and allowance commonly available to this kind of PRC entities and making it more favourable for Smile in Rain and Fujian Si Tai Di to develop business in PRC.

Under the trust arrangements, Mr. Lam and Mrs. Lam agreed, undertook and warranted that:

- (1) they would unconditionally act in accordance with the instructions from Mr. Lin to transfer the shares beneficially owned by Mr. Lin in Fujian Si Tai Di and Smile in Rain (the “**Trust Shares**”) to Mr. Lin or any other person appointed by Mr. Lin;

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- (2) they should not, unless with the written approval by Mr. Lin, transfer, mortgage or pledge the Trust Shares;
- (3) they should return all the benefits and interests arising from the Trust Shares to Mr. Lin within 30 days after their receipt of the same; and
- (4) all Trust Shares were beneficially owned by Mr. Lin and they would operate Fujian Si Tai Di and Smile in Rain in accordance with the instructions from Mr. Lin from time to time.

No remuneration was paid to Mr. Lam and Mrs. Lam for such trust arrangements. Mr. Lam and Mrs. Lam had never participated in the management and operation of these two companies since their incorporation.

Save as disclosed above in this section, Mr. Lam and Mrs. Lam did not have any employment, business or family relationship with the Group, Controlling Shareholders or their respective associates.

After Mr. Lin has consolidated his control of Fujian Si Tai Di and Simile in Rain under Fujian Sijia in 2002 and 2003 respectively, from early 2006, the Group decided to centralize its raincoat and general protective clothing business under Fujian Sijia, thus Fujian Si Tai Di and Smile in Rain had remained inactive since then. The Group subsequently disposed of all of its equity interests in Fujian Si Tai Di and Smile in Rain to Bestide Int'l, a Hong Kong incorporated company wholly-owned by Mr. Cai Zhiguo, in January 2008 and its raincoat and general protective clothing business of Fujian Sijia (due to increasing market competition and relatively lower profit margin) to Smile in Rain (which at the time was owned by Bestide Int'l to hold the acquired raincoat and general protective clothing business of Fujian Sijia) in May 2008. All the considerations were settled by Mr. Cai Zhiguo's own funding. The consideration for acquiring Fujian Si Tai Di and Smile in Rain was settled in Renminbi by Bestide Int'l through Mr. Cai Zhiguo making payment to Mr. Lin directly in PRC on 17 February 2008 and such payment was used to reduce the amount of the loan due by the Group to Mr. Lin (details of which are set out in Appendix I, Accountant's Report of this prospectus). Since Mr. Cai Zhiguo lacked sufficient Hong Kong currency to settle the said consideration and Mr. Lin was in need of Renminbi, both parties therefore agreed to adopt such way of settlement arrangement. The raincoat and general protective clothing business acquired by Mr. Cai Zhiguo had to be injected into legal entities to continue its operation and PRC legal entities would be preferable because the raincoat and general protective clothing business was conducted in PRC. Mr. Cai Zhiguo considered that these two existing PRC companies, i.e. Fujian Si Tai Di and Smile in Rain, although had been dormant since 2006, had been carrying on raincoat and general protective clothing business for years since their incorporation in 2000. Hence, they would be more familiar to and recognized by those established raincoat customers and suppliers of the Group than a newly established company. In addition, the registered business scope of Fujian Si Tai Di and Smile in Rain had included manufacturing of raincoat materials and related products. Therefore, acquiring these two dormant existing companies would provide Mr. Cai Zhiguo an immediate platform to handle the purchase orders redirected from the Group after the acquisition and continue operation of the raincoat and general protective clothing business with minimal interruption. Mr. Cai Zhiguo was an employee of the Group and a director of Fujian Sijia for the period from September 2005 to December 2007 who was in charge of the management of the raincoat manufacturing business of the Group. On 17 December 2007, Mr. Cai Zhiguo resigned as a director of Fujian Sijia and ceased to be an employee of the Group. Save as disclosed herein, Mr. Cai Zhiguo does not have any relationship, whether past or present, with the Group, its Controlling Shareholders or their respective associates.

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After disposals of Fujian Sijia's raincoat and general protective clothing business in May 2008, the Group ceased to hold any interests in raincoat and general protective clothing businesses. The Group however continues to manufacture and sell Materials including materials utilized to produce labour protective clothing and raincoat.

Fujian Si Tai Di

On 5 December 2000, Sanming Fang Ya Garment Co., Ltd* (三明方亞製衣有限公司), the predecessor of Fujian Si Tai Di, was established as a wholly foreign owned enterprise ("WFOE") in San Ming City, Fujian Province, PRC and held as to 100% by Mrs. Lam, in trust for Mr. Lin. The initial registered capital of Fujian Si Tai Di amounted to HK\$2,100,000 which was solely funded by Mr. Lin. Before it became inactive since early 2006, Fujian Si Tai Di was principally engaged in the manufacture and sale of single layer raincoat and general protective clothing used primarily for its water proof and stain resistance function such as those used in farming, fishing, mining and construction activities.

In order to consolidate Mr. Lin's control of the raincoat and general protective clothing business under the Group, Mrs. Lam as trustee of Mr. Lin transferred her 100% interest in Fujian Si Tai Di to Hong Kong Sijia for a consideration of HK\$2,100,000 on 12 June 2002. No payment of HK\$2,100,000 was actually made by Hong Kong Sijia, which was recorded as an amount due from Hong Kong Sijia to Mr. Lin and was finally assigned to China Grandsoo under the Corporate Reorganization. On the same day, Fujian Si Tai Di changed its name to Fujian Fang Ya Plastic Co. Ltd* (福建方亞塑膠有限公司), and its registered capital was increased from HK\$2,100,000 to HK\$10,000,000 by way of capitalization of retained earnings in the sum of about HK\$4.0 million and cash contribution in the sum of about HK\$3.9 million paid by Hong Kong Sijia with funding provided by Mr. Lin. Subsequently, on 25 April 2005, Fujian Fang Ya Plastic Co., Ltd* (福建方亞塑膠有限公司) further changed its name to Fujian Si Tai Di.

Since early 2006, Fujian Si Tai Di had remained inactive as the Group resolved to centralize its raincoat and general protective clothing business under Fujian Sijia. There has been no intra-group sales to Fujian Si Tai Di from Fujian Sijia during the Track Record Period.

On 30 January 2008, Hong Kong Sijia disposed of its 100% interest in Fujian Si Tai Di (which held 75% interest of Smile in Rain) to Bestide Int'l for a consideration of HK\$10,000,000 based on the registered capital of Fujian Si Tai Di, which consideration has been settled. The net asset value of Fujian Si Tai Di as at 31 December 2007 was RMB7,902,000.

Smile in Rain

On 24 January 2000, Fuzhou Fang Ya Garment Co. Ltd* (福州方亞製衣有限公司), the predecessor of Smile in Rain, was established as a sino-foreign enterprise in Fuzhou City, Fujian Province, the PRC and held as to 52.94% by Mr. Lam in trust for Mr. Lin, as to 28.82% by Haoyang Papers, an Independent Third Party and as to 18.24% by Zhongsheng Plastics, an Independent Third Party. The initial registered capital of Smile in Rain amounted to RMB850,000 of which RMB450,000 (the 52.94% held by Mr. Lam) was funded by Mr. Lin, and RMB155,000 and RMB245,000 were funded by Zhongsheng Plastics and Haoyang Papers respectively. Before it became inactive since early 2006, Smile in Rain was

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principally engaged in the manufacture and sale of multi-layer raincoat and general protective clothing, which provide extra warmth and durability than single layer raincoat and general protective clothing, such as those used as police, security guard uniforms.

In order to consolidate Mr. Lin's control of the raincoat and general protective clothing business under the Group, Fujian Si Tai Di acquired 5.29%, 28.82% and 18.24% interest in Smile in Rain from Mr. Lam, Haoyang Papers and Zhongsheng Plastics respectively for the considerations of RMB45,000, RMB245,000 and RMB155,000 respectively based on their relevant portions of the registered capital in Smile in Rain on 21 May 2003. No payment of RMB45,000 being the proceeds of sale of 5.29% interest of Mr. Lam was actually made by Hong Kong Sijia, which was recorded as an amount due from Hong Kong Sijia to Mr. Lin and was finally assigned to China Grandsoo under the Corporate Reorganization. As a result, Smile in Rain was held as to 52.35% by Fujian Si Tai Di and 47.65% by Mr. Lam on 6 August 2003 and remained as a foreign-owned enterprise in PRC.

Since early 2006, Smile in Rain had remained inactive as the Group resolved to centralize its raincoat and general protective clothing business under Fujian Sijia. There had been no intra-group sales to Smile in Rain from Fujian Sijia before the disposal of Smile in Rain during the Track Record Period.

In contemplation of the sale of the Group's raincoat and general protective clothing business to Bestide Int'l as mentioned below, it was agreed between the Group and Bestide Int'l that the then inactive business of Smile in Rain was to be reactivated and Fujian Sijia would direct its customers to place their orders of raincoat and general protective clothing products to Smile in Rain and Fujian Sijia would dispose of its raincoat and general protective clothing business to Smile in Rain. For this purpose, on 8 September 2007, Hong Kong Sijia acquired Mr. Lam's share of 47.65% equity interest in Smile in Rain for a consideration RMB405,000 based on his relevant portion of the registered capital in Smile in Rain. On 8 September 2007, the registered capital of Smile in Rain was agreed to be increased to RMB10,000,000 in such proportion by Fujian Si Tai Di and Hong Kong Sijia so as to result in the registered capital of Smile in Rain to be held as to 75% by Fujian Si Tai Di and 25% by Hong Kong Sijia. As at 19 November 2007, Fujian Si Tai Di and Hong Kong Sijia contributed RMB2,230,000 and RMB1,145,148 respectively in connection with such increase of registered capital through funding provided by Mr. Lin. The relevant funding was applied by Smile in Rain to purchase production materials for its new sales orders. After such contribution, the total paid up capital of Smile in Rain was RMB4,225,148 and was contributed as to RMB2,675,000 by Fujian Si Tai Di and as to RMB1,550,148 by Hong Kong Sijia.

On 25 January 2008, Hong Kong Sijia disposed of its 25% interest in Smile in Rain to Bestide Int'l for a consideration of RMB1,550,148 based on the portion of the registered capital of Smile in Rain actually contributed by Hong Kong Sijia, which consideration has been settled. The net asset value of Smile in Rain as at 31 December 2007 amounted to RMB3,461,000. On the same day, Smile in Rain changed its name to Smile in Rain (Fuzhou) Waterproof Garment Co., Ltd. (斯美倫(福州)防水服裝有限公司). On 31 May 2008, Smile in Rain (now under ownership and management of Bestide Int'l) acquired Fujian Sijia's raincoat and general protective clothing business for a consideration of RMB2,146,000 with reference to its relevant net asset value immediately before the disposal. After the

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disposal, Smile in Rain continued to purchase Materials from the Group for the production of its raincoat products. Sales (primarily related to polymer film, polymer coated polyester, PVC-poly, coated fabrics and wader and protective garment materials) by Fujian Sijia to Smile in Rain amounted to RMB29,921,000 and RMB13,582,000 for the year ended 31 December 2008 and the eight months ended 31 August 2009, respectively. The above sales accounted for about 9.3% and 3.9% of the total revenue of RMB321,229,000 and RMB351,137,000 of the Group from the combined continuing and discontinued operation for the year ended 31 December 2008 and the eight months ended 31 August 2009, respectively. Other than the above, there was no transaction between the Smile in Rain and other subsidiaries of the Group during the Track Record Period.

PRC Governmental Approvals

Pursuant to Notice on Relevant Issues about Foreign Exchange Administration for Domestic Individuals to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“No 75”) enacted by SAFE on 21 October 2005 and became effective on 1 November 2005, PRC individual engaging in stock right financing (including convertible bond financing) abroad with the enterprise assets or interests inside PRC via overseas special purpose companies shall apply to register with the local branch of foreign exchange administration for foreign exchange registration of overseas investments. Upon accomplishment of overseas financing, the domestic individual may, according to the plan on use of funds as stated in the business plans or the prospectus, transfer the funds which ought to be arranged for use inside PRC into PRC. A domestic individual may, after accomplishing the procedures for foreign exchange registration of overseas investments or for modification thereof in accordance with the legal provisions, pay the profits, dividends, liquidation expenses, stock right assignment expenses, capital decrease expenses, etc. to the special purpose company. Where a special purpose company meets with a major capital modification such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long-term stock rights or credits, provision of guaranty to a foreign party, etc., and is not involved in return investment, the domestic individual shall, within 30 days as of the major modification, apply to the foreign exchange administration for filing modification or foreign exchange registration of the overseas investments. On 29 May 2007, the SAFE issued Notice of Printing and Distributing the Operating Rules for the Notice on Relevant Issues about Foreign Exchange Administration for Domestic Individuals to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (關於印發《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》操作規程的通知).

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As advised by the Group's PRC legal advisor Guantao Law Firm, since Mr. Lin is the ultimate controlling shareholder of the Company, Hong Kong Sijia and Xiamen Grandsoo and a PRC individual, he is required to obtain, and has obtained the Domestic Residents Personal Offshore Investment Foreign Exchange Registration Certificate (境內居民個人境外投資外匯登記表) issued by SAFE Fujian branch on 4 September 2009. On 25 September 2009, he also received the Domestic Residents Personal Offshore Investment Foreign Exchange Registration Certificate (境內居民個人境外投資外匯登記表) issued by Xiamen branch of SAFE. Accordingly, he had complied with the requirements under the No.75 for the registration of offshore investment foreign exchange.

On 8 August 2006, MOFCOM, the State Assets Supervision and Administration Committee (國務院國有資產監督管理委員會), the State Taxation Bureau (國家稅務總局), the State Administration of Industry and Commerce (國家工商行政管理總局), the China Securities Regulatory Committee (中國證券監督管理委員會) and SAFE jointly issued a set of new Rules on the Acquisition of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》 (the "**Foreign Investors M&A Rules**"). The Foreign Investors M&A Rules requires that where an offshore special purpose company formed for the purposes of an offshore listing and controlled directly or indirectly by PRC companies or individuals or the shareholders of the special purpose company purchase the equities of a non-foreign-funded company or the share increase of a non-foreign-funded company by paying with the equities of the special purpose company or by paying with the share increase of the special purpose company, the approval from the China Securities Regulatory Committee must be obtained prior to the listing of the securities of such offshore special purpose company on an overseas stock exchange. In accordance with the legal opinion of its PRC legal advisor, since Fujian Sijia and Xiamen Grandsoo were both foreign-funded companies established before the effectiveness of the Foreign Investors M&A Rules and all the previous shareholding changes in Fujian Sijia and Xiamen Grandsoo did not amount to acquisitions as defined in the Foreign Investors M&A Rules. Accordingly, the Listing is not subject to the Foreign Investors M&A Rules and does not require the approval of the China Securities Regulatory Committee.

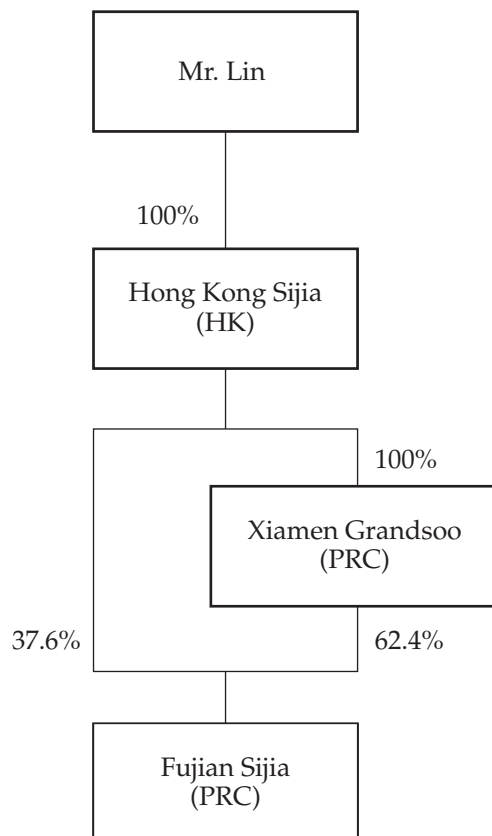
At the end of 2007, for the purpose of converting Fujian Sijia into a joint stock limited company, the Group invited four other independent investors to become shareholders of Fujian Sijia. Nevertheless, at the end, the shareholders of Fujian Sijia did not proceed to convert Fujian Sijia into a joint stock limited company as originally planned. Nevertheless, Guantao Law Firm, the PRC legal adviser to the Group, confirmed that regardless of whether Fujian Sijia had been converted into a joint stock limited company, so long as it remains as a foreign-invested enterprise, Fujian Sijia would not be subject to Foreign Investors M&A Rules.

In accordance with the legal opinion of the Group's PRC Legal advisor, the Group has complied with all applicable PRC rules and regulations in connection with PRC governmental approvals for the Listing, and has obtained all relevant approvals from PRC government authorities for the Corporate Reorganization and the Listing.

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CORPORATE STRUCTURE

The following chart shows the Group's corporate and shareholding structure immediately prior to the Corporate Reorganization:



Corporate Reorganization

The Group underwent the Corporate Reorganization in preparation for the Listing. The principal steps involved in the Corporate Reorganization are summarized below :

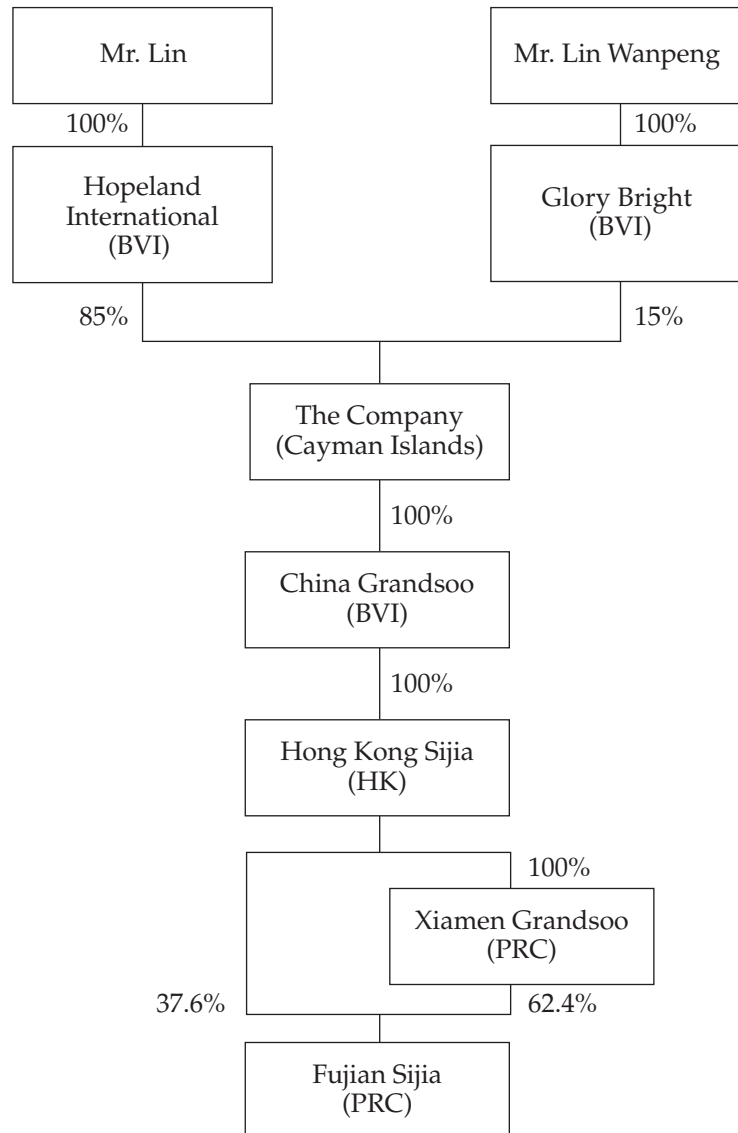
- (a) On 7 September 2009, China Grandsoo was incorporated in the British Virgin Islands as an exempted company with limited liability with an authorized share capital of US\$50,000 divided into 50,000 shares with the par value of US\$1.00. On the same day, one share with the par value of US\$1.00 was allotted and issued as fully paid to Mr. Lin. On 10 September 2009, Mr. Lin transferred such subscriber share in China Grandsoo to Hopeland International at par.
- (b) On 10 September 2009, Hopeland International was incorporated in the British Virgin Islands as an exempted company with limited liability with an authorized share capital of US\$50,000 divided into 50,000 shares with the par value of US\$1.00. On the same day, one share with the par value of US\$1.00 was allotted and issued as fully paid to Mr. Lin.

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- (c) On 7 October 2009, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorized share capital of HK\$380,000 divided into 380,000,000 shares with the par value of HK\$0.001. On the same day, one subscriber share with the par value of HK\$0.001 was transferred to Hopeland International and 9,999 shares with par value of HK\$0.001 were further allotted and issued to Hopeland International.
- (d) On 21 October 2009, China Grandsoo acquired 10,000 shares with a par value of HK\$1.00 each in the capital of Hong Kong Sijia, representing the entire issued shares of Hong Kong Sijia, and shareholder's loan in the principal amount of HK\$40,762,714, from Mr. Lin. In consideration of such acquisitions, China Grandsoo allotted and issued two shares with a par value of US\$1.00 each, credited as fully paid, to Hopeland International as directed by Mr. Lin.
- (e) On 15 December 2009, the Company acquired three shares with a par value of US\$1.00 each in the capital of China Grandsoo, representing the entire issued shares of China Grandsoo, from Hopeland International. In consideration of such acquisition, the Company allotted and issued 99,990,000 shares with a par value of HK\$0.001 each, credited as fully paid, to Hopeland International.
- (f) On 15 December 2009, Mr. Lin procured Hopeland International to transfer 15,000,000 Shares, representing 15% of the then issued share capital of the Company to Glory Bright as full and final settlement of the loan in the principal amount of HK\$45.7 million due and owing from Mr. Lin to Mr. Lin Wanpeng together with interests accrued thereon. The transfer price (calculated based on HK\$45.7 million) represents an effective price of about HK\$0.51 per Share representing a discount of about 81.0% and 87.7% to HK\$2.69 and HK\$4.13, being the low end and high end of the indicative Offer Price range, respectively.

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Upon completion of the Corporate Reorganization, the Company became the holding company of the Group. The following chart sets out the structure of the Group immediately after the Corporate Reorganization:



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Corporate Structure upon Completion of the Global Offering

The following chart sets forth the corporate structure of the Group after the Corporate Reorganization and immediately following allotment of the Offer Shares, assuming that the Over-allotment Option is not exercised:

