

# BUSINESS

## OVERVIEW

The Group is principally engaged in the design, development, manufacture and sale of polymer processed high strength polyester fabric composite materials and other reinforced composite materials (“Reinforced Materials”) and conventional materials (“Conventional Materials”, and together with Reinforced Materials, collectively known as “Materials”). The Group has also expanded into the design, development, manufacture and sale of downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market (“End Products”).

According to the independent market research and consulting company, Frost & Sullivan, the Group was the fourth largest and the largest manufacturer of Reinforced Materials in the PRC in terms of turnover in 2008 and for the eight months ended 31 August 2009 respectively. Under the outdoor sub-sector of the PRC Reinforced Materials market, the Group was the largest manufacturer of wader and protective garment materials and with the widest product range and functions, the largest manufacturer of inflatable materials and the largest manufacturer of air tightness materials in terms of turnover for these two periods respectively. From 2006 to 2008, the percentage of outdoor Reinforced Materials compared with the whole Reinforced Materials in China has increased from about 38.2% to about 40.0% in terms of turnover.

Revenue generated from the abovementioned three products and as a percentage of the Group’s total revenue from continuing operations during the Track Record Period are as follows:

	For year ended 31 December						For eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	% of Group's revenue	RMB'000	% of Group's revenue	RMB'000	% of Group's revenue	RMB'000	% of Group's revenue	RMB'000	% of Group's revenue
Wader and protective garment materials	1,396	1.7%	3,978	2.7%	37,496	12.5%	15,542	7.7%	63,422	18.1%
Inflatable materials	9,207	10.9%	8,561	5.8%	70,252	23.4%	43,992	21.7%	63,335	18.0%
Air tightness materials	6,683	7.9%	12,854	8.6%	24,204	8.1%	17,619	8.7%	43,552	12.4%

Reinforced Material is high performance composite fabric material made from using fabric materials such as high strength polyester fabrics or nylon as basic material and adding polymer (such as PVC, TPU, etc.) through specific techniques and formulae. Reinforced Material has a number of high performance characteristics such as (i) high tensile strength, anti-tearing and high adhesive strength; (ii) high abrasion and impact resistance; (iii) flame retardant, waterproof, oil proof, anti-bacterial, anti-smudge, stain resistant, and high acid and alkali resistance; (iv) anti-UV, anti-static, anti-oxidation; and (v) high and low temperature resistance and durable. Due to the high performance of Reinforced Materials, it can be used in a wide range of applications and industries. Conventional Materials are made from fabrics other than high strength polyester fabric materials through less sophisticated production process and formulae, with features requirement normally lower than that of Reinforced Materials. The Group’s Conventional Materials are mainly utilized to produce labour protective clothing and raincoats.

Over the years, the Group has received various awards and recognitions for the Group's technological advancements, product and production technique innovation capabilities and achievements from the relevant government authorities and associations. According to Frost & Sullivan, the Group ranked number one with about 4.5% market share in the PRC Reinforced Material market in terms of turnover for the eight months ended 31 August 2009. The Directors believe that its leading position in the Reinforced Material industry is attributable to the Group's strong research and development capabilities and technologically-advanced production technology/technique, which differentiate itself from other mass-market polymer materials manufacturers. The Group's Reinforced Materials sold under the "Sijia" brand are recognized as Fujian Famous Brand Product in December 2008. In addition, the Group has been accredited the "Year 2008 Famous Trademark in Fujian Province" for its "Sijia" trademark in December 2009.

The technical specifications of the Group's Reinforced Materials can meet international safety and environmental standards. Up to the Latest Practicable Date, the Group has passed all the necessary product verification testings required by the customers.

For example, out of the Group's Reinforced Materials, the visibility clothing materials of the Group have passed tests for EN471 standard, an European standard regarding the visibility of protective clothing and specifying, among other things, the materials to be used. The Materials of the Group have met the EN71 standard regarding safety of toys, which specifies, among other things, the chemical substances which the toys should contain. So far as requested by its customers to submit for testing, those Materials of the Group have also passed the requirements for total lead and soluble element content specified by the American Society for Testing and Materials – ASTM F963-07, the requirements for permissible lead and phthalates content in children's products specified in U.S. Public Law 110-314 (Consumer Product Safety Improvement Act of 2008), and the requirements for levels of regulated chemical substances in electrotechnical products specified in the Restriction of the Use of Certain Hazardous Substances (RoHS) Directive 2002/95/EC, an European standard.

In addition, the Reinforced Materials of the Group can meet international technical specifications such as ISO. For instance, the airtightness materials produced by the Group can reach a tensile strength, anti-tearing and adhesive strength of 4,500N, 430N and 105N, respectively, which is higher than 2,000N, 40N and 50N, respectively as required by ISO's international standards. The Group has obtained the NFPA701 ("Standard Methods of Fire Tests for Flame Propagation of Textiles and Films") certification issued by the United States Fire Administration with respect to its inflatable materials and medical materials, which normally apply to large scale inflatable toys and medical mattresses.

According to Frost & Sullivan, as at 30 September 2009, the Group was the only manufacturer who manufactures both Reinforced Materials for and End Products of biogas tanks for biomass and sewage related projects in the PRC. The Group began sale of biogas tank Reinforced Materials and biogas tank End Products in 2009 and for the eight months ended 31 August 2009, revenue from biogas tank Reinforced Materials and biogas tank End Products was about RMB4.8 million and RMB445,000 respectively, representing about 1.4% and about 0.1% of the Group's total turnover from continuing operations during the same period.

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Biogas tanks require high air tightness and the Directors believe the Group's technical expertise and capabilities allow it to produce both the Reinforced Materials for and End Products of biogas tanks. The Group is currently applying for patent for the technology and design of its biogas tank Reinforced Materials.

In addition, to the knowledge of the Directors, as there are currently no relevant national standards which govern the technical specifications and requirements for biogas tanks in the PRC. In order to promote the development of the Reinforced Materials and End Products of biogas tanks in the PRC and standardization of technical specifications, the Group has taken the initiative and voluntarily prepared a set of proposed standards for adoption by the State Standardization Administration and has submitted the said proposed standards to the Quality and Technical Supervision Bureau of Fuzhou, which, upon approval, will be submitted to the Quality and Technical Supervision Bureau of Fujian province and subsequently to the State Standardization Administration to be adopted as the industry standards.

The Group offers a comprehensive portfolio of Reinforced Materials for a wide range of applications and industries as follows:

<b>Type of products</b>	<b>Main applications</b>	<b>Main characteristics</b>
Wader and protective garment materials	Waders for farming, fishing, chemical engineering, medical, construction, fire fighting, leisure and recreation, mining and tunneling and underground railway construction purposes	Colour fastness, fire retardant, oil proof, anti-acidic and alkaline, anti coldness, warmth keeping, anti-bacteria and easily washable
Air tightness materials	Inflatable boats such as drifting boats, kayak, motor boats and patrol boats and water leisure and recreational products such as water bicycles, water balls, water totters and icebergs, pools and oil fences	High tensile strength, anti-tearing and high adhesive strength, outstanding abrasion resistance and high air tightness, strong impact resistance, anti-UV, good weather resistance and temperature resistance

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Type of products	Main applications	Main characteristics
Inflatable materials	Large scale inflatable toys such as slides, castles and bouncers, climbing structure, archway, billboard, movie screens, goal posts, function rooms, mazes, racing tracks, children's playgrounds and arenas	High tensile strength, anti-tearing, abrasion and high adhesive strength, strong water pressure resistance, fire retardant, anti-UV, anti-colour migration and colour fastness
Tarpaulin	Military tents, protection covers for military use, leisure tents, covers for container trucks/trains, construction covers and membrane structures	Anti-UV, good weather resistance, stain-resistant treatment, colour fastness, fire retardant, oil proof, acid and alkali resistance
Bag materials	Industrial package bags, specific tool bags, waterproof bags, boxing bags, ice bags, fishing bags, sports bags and luggage carriers	Anti-UV, good weather resistance, oil proof, stain resistance, fire retardant, environmental-friendly with no toxins, anti-bacteria and anti-static
Medical materials	Medical mattress, hospital beds, healthcare facilities, protective covers, blood pressure cuffs, oxygen bags and antibiotic bags	Fire retardant, liquid and odour resistance, environmental-friendly with no toxins, no allergic substance, anti-bacteria, anti-static, oil proof and stain resistance

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Type of products	Main applications	Main characteristics
Biogas tank materials	Biogas tanks, biogas reservoir bags, biomass and sewage related projects	Strong heat absorption and warmth keeping function, high tensile strength and anti-tearing strength, high air tightness, strong impact resistance, anti-UV, good weather resistance, low temperature resistance, durable
Sports hall flooring materials	Flooring for indoor stadiums, sports centers, athletic meets of schools and courts for badminton, ping-pong, volleyball etc	Anti-bacteria, fire retardant, oil proof, anti-static, stain resistance, no toxic materials, environmental-friendly, abrasion-resistance formula, durable, surface embossing and high motive adhesion
Professional hiking snowshoes materials	Professional hiking snowshoes, sledges and snowboards	Low temperature resistance formula ensuring usage in low temperature, high tensile strength, anti-tearing and high adhesive strength
Curtain materials	Curtains for offices, hotels, residences and warehouses, and automatic rolling gates	Colour fastness, good opaque quality, fire retardant, oil proof, anti acidic and alkaline, anti bacteria, stain resistance and easily cleaned

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Set out below is a revenue breakdown analysis of the Group's Reinforced Materials business segment:

	For the year ended 31 December						For the eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Wader and protective garment materials	1,396	4.8	3,978	8.4	37,496	22.5	15,542	14.9	63,422	28.2
Air tightness materials	6,683	23.0	12,854	27.2	24,204	14.5	17,619	16.9	43,552	19.4
Inflatable materials	9,207	31.6	8,561	18.1	70,252	42.2	43,992	42.1	63,335	28.2
Tarpaulin	3,410	11.7	5,202	11.0	8,254	4.9	7,051	6.7	12,434	5.5
Bag materials	8,414	28.9	16,692	35.3	26,454	15.9	20,338	19.4	23,553	10.5
Medical materials	-	-	-	-	-	-	-	-	5,616	2.5
Biogas tank materials	-	-	-	-	-	-	-	-	4,839	2.1
Curtain materials	-	-	-	-	-	-	-	-	8,119	3.6
<b>Total</b>	<b>29,110</b>	<b>100.0</b>	<b>47,287</b>	<b>100.0</b>	<b>166,660</b>	<b>100.0</b>	<b>104,542</b>	<b>100.0</b>	<b>224,870</b>	<b>100.0</b>

The Group's Conventional Materials include polymer coated polyester, polymer film, polymer coated nylon, PVC-poly, coated fabrics and lining, all of which are made from fabrics such as polyesters, nylon, or composite fabrics (other than high strength polyester fabrics), through less sophisticated production process and formulae with features requirement normally lower than that of Reinforced Materials.

The following is an overview of the types of Conventional Materials offered by the Group:

Type of Products	Main applications	Main characteristics
Polymer coated polyester	Production of raincoats, parkas, daily necessities and tents	Soft, good heat sealing ability, waterproof, moisture-proof and wind resistant
Coated fabrics	Production of military suit, police flight suit, protective clothing, outdoor clothing and labour protective clothing	Light weight, excellent luminance factor, flame retardant, waterproof, water vapor permeable and breathable
Lining	Production of raincoats, clothing and bags	Soft

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Type of Products	Main applications	Main characteristics
PVC-poly	Production of raincoats and aprons for labour protection	Heat sealing, waterproof, moisture-proof, puncture resistant, stable size, low temperature resistant, flame retardant, acid and alkaline resistant
Polymer film	Production of daily necessities, raincoats, aprons, bags, advertising materials, labour protective clothing, packing materials, swimming pools, inflatable toys and agricultural film	Soft, waterproof, anti-UV, low temperature resistant and flame retardant
Polymer coated nylon	Production of raincoats, parkas, labour protective clothing, waders and tents	Soft and comfortable texture, good colour fastness, excellent heat sealing ability, waterproof, moisture-proof, wind resistant, warmth keeping and durable

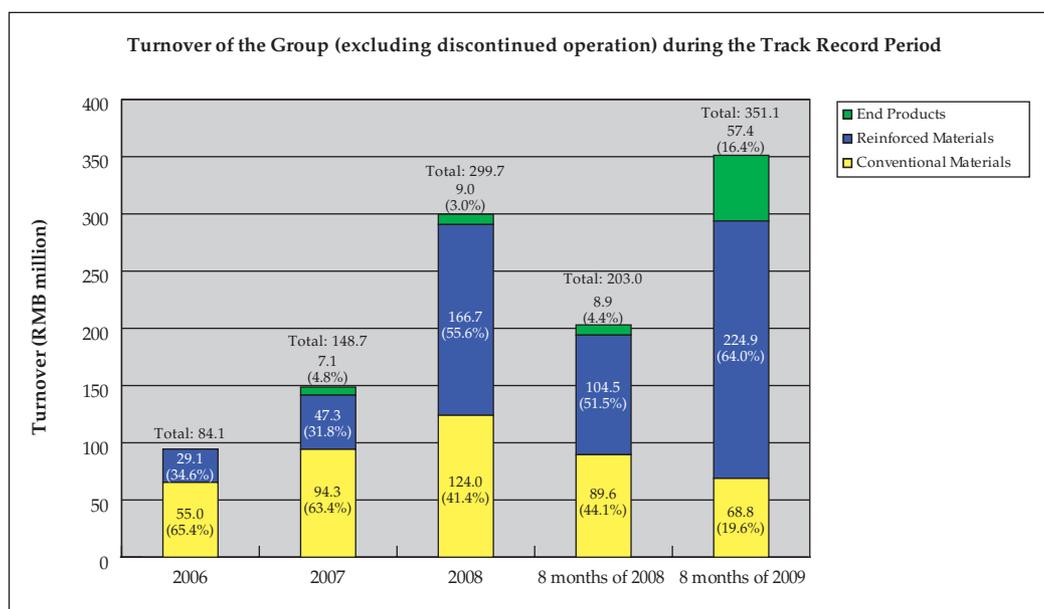
Set out below is a revenue breakdown analysis of the Group's Conventional Materials business segment:

	For the year ended 31 December						For the eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Polymer film	19,118	34.7	16,101	17.1	14,363	11.6	11,600	13.0	18,817	27.3
Polymer coated polyester	25,454	46.3	44,938	47.6	73,163	59.0	54,489	60.8	38,544	56.0
Lining	2,021	3.7	4,094	4.3	3,836	3.1	2,773	3.1	1,539	2.2
Polymer coated nylon	945	1.7	967	1.0	480	0.4	408	0.5	3,317	4.8
PVC-poly	6,368	11.6	14,048	15.0	26,561	21.4	15,002	16.7	5,684	8.3
Coated fabrics	1,116	2.0	14,184	15.0	5,573	4.5	5,282	5.9	958	1.4
	<u>55,022</u>	<u>100.0</u>	<u>94,332</u>	<u>100.0</u>	<u>123,976</u>	<u>100.0</u>	<u>89,554</u>	<u>100.0</u>	<u>68,859</u>	<u>100.0</u>

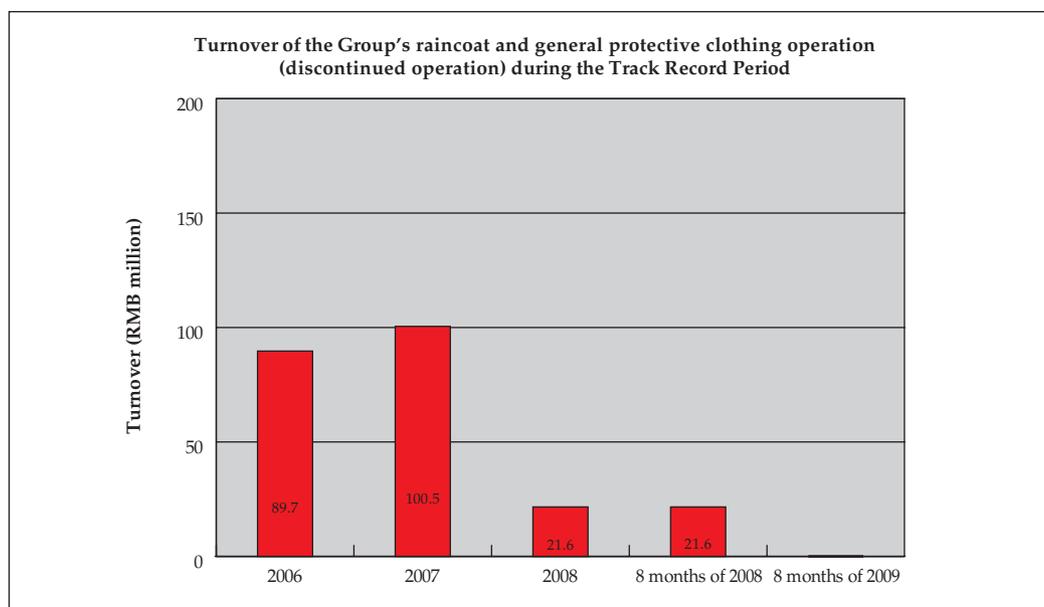
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During the Track Record Period, most of the Group's Conventional Materials were principally sold to the raincoat and labour protective clothing manufacturers and trading companies. Despite the Group's primary focus on the development and sale of Reinforced Materials, the Group would continue, depending on customer demand and profitability, to utilize its existing production facilities to develop and sell its Conventional Materials.

For each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, turnover of Reinforced Materials accounted for about 34.6%, 31.8%, 55.6% and 64.0%, respectively, of the Group's total turnover (excluding discontinued operation) whilst turnover of Conventional Materials accounted for about 65.4%, 63.4%, 41.4% and 19.6%, respectively, of the Group's total turnover (excluding discontinued operation). Turnover of Reinforced Materials increased from about RMB29.1 million in 2006 to RMB166.7 million in 2008, representing a CAGR of about 139.3%. Turnover of Reinforced Materials for the eight months ended 31 August 2009 was about RMB224.9 million. The increasing contribution by the Reinforced Materials business throughout the Track Record Period demonstrated the Group's successful strategy to focus on delivering high performance Reinforced Materials. To differentiate the Group's products from other manufacturers, the Group has started to imprint with and market the Group's Reinforced Materials under the "Sijia" brand name and the "S" trademark.



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As at the Latest Practicable Date, the Group's Materials were sold to over 400 domestic customers (including domestic manufacturers of End Products, OEM manufacturers of international brands and trading companies) as well as over 20 international customers in other countries, including the United States, Germany, the United Kingdom, New Zealand, South Korea, Iran, Singapore, Costa Rica, Chile and the Philippines.

To capitalize on the growing international and, in particular the PRC, downstream outdoor leisure and recreational products market and to leverage on its expertise in manufacturing Reinforced Materials which are used to manufacture downstream inflatable and waterproof products, the Group began to develop its End Products business and engaged in small scale production since 2007 and further increased its production capacity by commencing the operation of the Xiamen Plant in 2009. All End Products of the Group are manufactured using its own brand of Reinforced Materials in order to control the quality of its End Products. For each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, turnover of End Products accounted for nil, about 4.8%, 3.0% and 16.4%, respectively, of the Group's total revenue (excluding discontinued operation). Turnover of End Products for the eight months ended 31 August 2009 was about RMB57.4 million.

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As at the Latest Practicable Date, the Group offers and plans to offer the following portfolio of End Products:

Product types	Major targeted markets	Brand names and logos
<p>Waders and protective clothing</p> 	<p>Farming, aquaculture, fishing, chemical engineering, fire fighting, leisure and recreation, mining and construction</p>	<p>姜太公, 致富郎, 水傳說</p> 
<p>Inflatable boats</p> 	<p>Maritime, port docking, military, drifting tourism spots, aquatic entertainment, recreational sports, life-saving</p>	<p>Long Standing </p>
<p>Inflatable aquatic leisure products</p> 	<p>Aquatic parks, recreational sports, leisure and recreation</p>	<p>Long Standing </p>
<p>Inflatable products (including large scale inflatable toys, inflatable tents, billboards and others)</p> 	<p>Outdoor entertainment parks, shopping malls, schools, sports centres, parks, advertisement</p>	<p>Long Standing </p>
<p>Biogas tanks</p> 	<p>Sewage and biomass related projects</p>	<p>Grandsoo </p>
<p>Sports hall flooring (expected to be launched in 2010)</p> 	<p>Sports halls in schools, sports stadiums</p>	<p>Grandsoo </p>
<p>Air beds (expected to be launched in 2010)</p> 	<p>Household, office, hotel and outdoor camping sites</p>	<p>Grandsoo </p>
<p>Pools (expected to be launched in 2010)</p> 	<p>Household, entertainment, outdoor camping sites</p>	<p>Source of joy </p>

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As at the Latest Practicable Date, the Group's End Products were sold to 118 and 42 domestic and international customers respectively (including outdoor and waterproof sports and leisure product retailers, wholesalers, trading companies, drifting clubs and outdoor event organizers). During each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, the amount of nil, about RMB7.1 million, RMB9.0 million and RMB56.5 million, representing nil, about 100.0%, 100.0% and 98.4% of the Group's sales amount of End Products were sold under the Group's own brands. The remaining mainly represents sales to international brands.

During each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, the Group's domestic sales (excluding discontinued operation) amounted to about RMB83.9 million, RMB146.2 million, RMB289.8 million and RMB342.7 million, respectively, and the Group's overseas sales (excluding discontinued operation) amounted to about RMB206,000, RMB2.5 million, RMB9.8 million and RMB8.5 million, for the same periods, respectively.

The raw materials used by the Group for production of its Reinforced Materials mainly include polymer, additives and fabrics, while its End Products are manufactured using own brand of Reinforced Materials and parts and components purchased externally. A majority of the raw materials purchased externally by the Group were sourced from suppliers based in the PRC.

The Group has two production facilities located in Fuzhou and Xiamen, Fujian Province. The Fuzhou Plant has been in operation since August 2003 and is primarily engaged in the manufacturing of the Group's Reinforced Materials and large scale inflatable toys End Products with design and small scale production capability for other End Products. The Xiamen Plant commenced operations in August 2009 and is engaged in the design and manufacturing of the Group's End Products (except large scale inflatable toys).

The Group places strong emphasis on continued research and development and has a qualified research and development team based in Fuzhou, Fujian Province which focuses on improving its existing technology, processing techniques, production efficiency and the development of new products. As at the Latest Practicable Date, the Group's research and development department had 29 personnel with diploma and undergraduate qualifications, including two engineers and two assistant engineers, in the relevant disciplines including polymer materials, chemical engineering and electrical technology. As at the Latest Practicable Date, the Group held 45 registered patents (including 28 utility model patents and 17 design patents) and had 24 patents in the process of application for registration.

The Group also collaborates with established scholars and research institute under Fuzhou University, and has entered into (i) agreements with Professor Gu Zhenya (顧振亞), a professor and doctoral tutor at Tianjin Polytechnic University, and Professor Zheng Yuying (鄭玉嬰), Dean of Polymer Science and Technology Institute of Fuzhou University (福州大學) to act as exclusive technical consultants to the Group; and (ii) an agreement with the Fujian Center for Development of Functional Materials Technology of Fuzhou University to jointly establish the Center for Research and Development of High Strength Industrial Polyester Composite Fabric Materials.

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The Group's technological advancements, product and production technique innovation capabilities and achievements have been recognized by the relevant government authorities and associations. The following awards and recognitions were granted to the Group up to the Latest Practicable Date:

Awards and recognitions	Awarded by	Year
New High Technology Enterprise in Fujian Province 福建省高新技術企業	Fujian Provincial Department of Science & Technology	September 2006
Technologically Advanced Foreign-owned Enterprise 外商投資先進技術企業	Fujian Provincial Department of Foreign Trade and Economic Cooperation	November 2006
Fujian Province Trustworthy Enterprise 福建省守合同重信用企業	Administration for Industry & Commerce of Fujian Province	April 2007
Gold Award in the Innovation Results 海峽兩岸職工創新成果金獎	Organizing Committee of Cross-strait Trade Union Innovation Exhibition	June 2007
Second Prize of Fuzhou Outstanding New Product 福州市優秀新產品二等獎	The People's Government of Fuzhou	December 2007
Top 10 of Major Industries of Fujian Province 福建工業主要行業前十強	Enterprise Assessment Centre and Association of Fujian Province	August 2008
Second Prize of Science and Technology Progress in Fuzhou 福州市科技進步二等獎	The People's Government of Fuzhou	September 2008
New High Technology Enterprise in Fujian Province 福建省高新技術企業	Office of Science and Technology in Fujian Province, Department of Finance in Fujian Province, Office of State Tax Administration of Fujian Province and Office of Local Tax Administration of Fujian Province	November 2008
Third Prize of Fuzhou Outstanding New Product 福州市優秀新產品獎三等獎	The People's Government of Fuzhou	December 2008
Fujian Famous Brand Product 福建名牌產品	The People's Government of Fujian	December 2008
2007-2008 Fujian Province Trustworthy Enterprise 二零零七至二零零八年度福建省守合同重信用企業	Administration for Industry & Commerce of Fujian Province	December 2008

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Awards and recognitions	Awarded by	Year
Independent Innovative Products in Fujian Province 福建省自主創新產品	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	June 2009
Second Prize of Science and Technology Progress in Fuzhou 福州市科技進步二等獎	The People's Government of Fuzhou	October 2009
Enterprise Technology Center in Fuzhou 福州市企業技術中心	Economic and Trade Commission in Fuzhou	December 2009
Fujian Outstanding New Product 福建省優秀新產品	The People's Government of Fujian Province	December 2009
Fuzhou Outstanding New Product 福州市優秀新產品	The People's Government of Fuzhou	December 2009
Year 2008 Famous Trademark in Fujian Province 2008年度福建省著名商標	Administration for Industry & Commerce of Fujian Province	December 2009

The Directors believe that stringent quality control is also key to the Group's success. Stringent quality control measures are built into various stages of the Group's production process to ensure that its products meet the quality standards required by its customers and international safety standards. Besides winning a series of awards for its products, the Group was also accredited with ISO9001:2000 by the CQC Center in April 2006 in relation to the Group's quality management system.

The Directors believe that the Group's technology expertise, research and development capability and product quality, sales and services network and customer-oriented services contributed to the growth of the Group over the Track Record Period. During the Track Record Period, turnover (excluding the discontinued operation) increased from about RMB84.1 million in 2006 to about RMB299.7 million in 2008, representing a CAGR of about 88.7%. Net profit (excluding the discontinued operation) increased from about RMB9.0 million in 2006 to about RMB79.4 million in 2008, representing a CAGR of about 198.0%. With the Group's large scale production of End Products launched in 2009, the Group recorded turnover of about RMB351.1 million and net profit of about RMB100.7 million for the eight months ended 31 August 2009, representing an increase of about 73.0% and about 62.7% respectively compared to the same period in 2008.

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According to Frost & Sullivan, due to the wide range of downstream applications and the growing domestic and global demand, the PRC Reinforced Materials market is expected to grow from about RMB5.6 billion in 2008 to about RMB21.5 billion in 2014, representing a CAGR of about 25.3%. As a leading PRC manufacturer of Reinforced Materials which ranked number one with 4.5% market share in the PRC Reinforced Materials market in terms of turnover for the eight months ended 31 August 2009, the Directors believe it will continue to benefit from the expected growing demand for Reinforced Materials.

According to Frost & Sullivan, total PRC downstream product market revenue reached about RMB22.5 billion in 2008 and is forecasted to be about RMB94.2 billion in 2014, representing a CAGR of about 27.0%. The Directors believe the Group is well positioned to benefit from its End Products business.

### COMPETITIVE STRENGTHS

The Directors consider the principal competitive strengths of the Group as follows:

#### **Leading market position**

The Group is a leading PRC manufacturer of Reinforced Materials. According to Frost & Sullivan, the PRC Reinforced Materials market is fragmented with the top 5 manufacturers together accounted for about 14.9% of the market in 2008, each with market share close to each other within the range of about 2.2% to 3.3%. The Group ranked number four with about 3.0% market share in terms of turnover in 2008 and, with a two-year CAGR of about 139.3%, the Group had a higher growth rate than the other top manufacturers and the industry average from 2006 to 2008. The market share of the Group increased to about 4.5% and ranked number one in terms of turnover for the eight months ended 31 August 2009. Under the outdoor sub-sector of the PRC Reinforced Materials market, the Group ranked number one and with about 10.4% market share in wader and protective garment materials, ranked number one and with about 28.1% market share in inflatable materials and ranked number one and with about 10.5% market share in air tightness materials in terms of turnover in 2008. The Group ranked number one and with about 20.4% market share in wader and protective garment materials, ranked number one and with about 29.0% market share in inflatable materials and ranked number one and with about 18.2% market share in air tightness materials in terms of turnover for the eight months ended 31 August 2009.

The Directors believe that the Group is also a leading PRC manufacturer of Reinforced Materials in terms of its technological advancement and technical capability. Over the years, the Group has received various awards and recognitions for the Group's technological advancements, products and production technique innovation capabilities and achievements from the relevant government authorities and associations. The technical specifications of the Group's Reinforced Materials can meet international safety and environmental standards. For further details of the Group's research and development capabilities, please refer to paragraph headed "Strong research and development capabilities and commitment to product innovation" in the section.

### **Vast product applications and integrated business model**

The product portfolio of the Group ranges from inflatable materials, air tightness materials, wader and protective garment materials, tarpaulin, curtain materials, bag materials, medical materials, biogas tank materials and sports hall flooring materials which can be adopted in a large number of applications and industries including outdoor leisure and recreation, recreational sports, renewable energy, logistics, construction, labor protection, packaging, medical use, life-saving, advertising and household supplies. With its expertise in the manufacture of Reinforced Materials, the Group has expanded its business to the related downstream End Products such as inflatable boats, large scale inflatable toys, inflatable aquatic leisure products, waders and protective clothing and biogas tanks.

The customers of the Group's Reinforced Materials include domestic manufacturers of End Products across various industries (such as outdoor leisure entertainment, logistics, construction, labour protection, packaging, recreational sports, renewable energy, medical, life-saving, household supplies and advertising), OEM manufacturers of international brands and trading companies, and, international customers in other countries, including the United States, Germany, the United Kingdom, New Zealand, South Korea, Iran, Singapore, Costa Rica, Chile and the Philippines.

The Group's End Products are sold to a wide spectrum of domestic and international customers, including outdoor and waterproof sports and leisure product retailers, wholesalers, trading companies, drifting clubs and outdoor event organizers. As the Group has a broad customer base covering a large number of industries and does not place undue reliance on any industry segment, the Directors believe the Group can effectively limit its exposure to business risks resulting from the market downturn of individual industry.

In addition, the Directors believe that having an integrated business model allows the Group to (i) increase its income stream; (ii) lower overheads and transaction costs and further enhance its overall cost effectiveness; (iii) synchronize supply and demand along the product value chain, enhance the Group's market significance and minimize the market exposures associated with different parts of the value chain; and (iv) enhance quality of both upstream and downstream products through the understanding of end products requirements.

### **High brand recognition**

The Group's Reinforced Materials are sold under the "Sijia" brand. Since the establishment of the Group in 2002, the "Sijia" brand has developed into a well known brand of Reinforced Materials in the PRC and is highly recognized by the Group's customers, relevant government bodies and trade associations. Among the awards and recognitions as set out under the "Awards and recognitions" section of the prospectus, the "Sijia" brand for the Reinforced Materials was accredited as Fujian Famous Brand Product (福建名牌產品) by the Fujian Government in 2008 and the air tightness materials was recognized as the Independent Innovative Products in Fujian Province (福建省自主創新產品) in 2009 and was listed in the purchase catalogue of the Fujian provincial government.

As a part of the branding strategy, the Group has started to imprint the Group's "Sijia" logo on its Reinforced Materials in order to differentiate from products of other suppliers and strengthen the brand status. The Group has registered its trademarks in Hong Kong, the United States, England, France, Germany and Singapore. The Directors believe that the strong brand recognition of the Group's brand is mainly attributable to its high products quality, devotion to product development and innovation, customer-oriented services, and the leading market position of the Group.

**Strong research and development capabilities and commitment to product innovation**

The Directors believe that one of the key success factors in the PRC Reinforced Materials market is the production technology and technical expertise to manufacture products which can meet specific customers' requirements on product performance and functions and to develop new products. As such, the Group places strong emphasis on continued research and development and has a qualified research and development team based in Fuzhou, Fujian Province, which focuses on improving its existing technology, processing techniques, production efficiency and the development of new products. As at the Latest Practicable Date, the Group's research and development team comprised 29 personnel with diploma and undergraduate qualifications, including two engineers and two assistant engineers, in the relevant disciplines including polymer materials, chemical engineering and electrical technology. As at the Latest Practicable Date, the Group held 45 registered patents (including 28 utility model patents and 17 design patents and had 24 patents in the process of application for registration.

The Group also collaborates with established scholars and research institute under Fuzhou University, and has entered into (i) agreements with Professor Gu Zhenya (顧振亞), a professor and doctoral tutor at Tianjin Polytechnic University, and Professor Zheng Yuying (鄭玉嬰), Dean of Polymer Science and Technology Institute of Fuzhou University (福州大學) to act as exclusive technical consultants to the Group; and (ii) an agreement with the Fujian Center for Development of Functional Materials Technology of Fuzhou University to jointly establish the Center for Research and Development of High Strength Industrial Polyester Composite Fabric Materials.

During the Track Record Period, the Group has continued to expand its product offerings and has received various awards and recognitions for the Group's technological advancements, product and production technique innovation capabilities and achievements from the relevant government authorities and associations as set out under the "Awards and recognitions" section of the prospectus. Based on the above, the Directors believe that the Reinforced Materials developed by the Group are among the most technologically advanced products in the PRC.

The technical specifications of the Group's Reinforced Materials can meet international safety and environmental standards. Up to the Latest Practicable Date, the Group has passed all the necessary product verification testings required by the customers.

## BUSINESS

For example, out of the Group's Reinforced Materials, the visibility clothing materials of the Group have passed tests for EN471 standard, an European standard regarding the visibility of protective clothing and specifying, among other things, the materials to be used. Materials of the Group have met the EN71 standard regarding safety of toys, which specifies, among other things, the chemical substances which the toys should contain. So far as requested by its customers to submit for testing, those Materials of the Group have also passed the requirements for total lead and soluble element content specified by the American Society for Testing and Materials – ASTM F963-07, the requirements for permissible lead and phthalates content in children's products specified in U.S. Public Law 110-314 (Consumer Product Safety Improvement Act of 2008), and the requirements for levels of regulated chemical substances in electrotechnical products specified in the Restriction of the Use of Certain Hazardous Substances (RoHS) Directive 2002/95/EC, an European standard.

In addition, the Reinforced Materials of the Group can meet international technical specifications such as ISO. For instance, the air tightness materials produced by the Group can reach a tensile strength, anti-tearing and adhesive strength of 4,500N, 430N, and 105N, respectively, which is higher than 2,000N, 40N and 50N, respectively, as required by ISO's international standard. The Group has obtained the NFPA701 ("Standard Methods of Fire Tests for Flame Propagation of Textiles and Films") certification issued by the United States Fire Administration with respect to its inflatable materials and medical materials, which normally apply to large scale inflatable toys and medical mattresses.

According to Frost & Sullivan, as at 30 September 2009, the Group was the only manufacturer who manufactures both Reinforced Materials for and End Products of biogas tanks for biomass and sewage related projects in the PRC.

Biogas tanks require high air tightness and the Directors believe the Group's technical expertise and capabilities allow it to produce both the Reinforced Materials for and End Products of biogas tanks. The Group is currently applying for patent for the technology and design of its biogas tank Reinforced Materials.

In addition, to the knowledge of the Directors, there are currently no relevant national standards which govern the technical specifications and requirements for biogas tanks in the PRC. In order to promote the development of the Reinforced Materials for and End Products of biogas tanks in the PRC and standardization of technical specifications, the Group has taken the initiative and voluntarily prepared a set of proposed standards for adoption by the State Standardization Administration and has submitted the said proposed standards to the Quality and Technical Supervision Bureau of Fuzhou, which, upon approval, will be submitted to the Quality and Technical Supervision Bureau of Fujian province and subsequently to the State Standardization Administration to be adopted as the industry standards.

The Directors believe the Group's strong research and development capabilities enable the Group to manufacture higher end products compared to its competitors.

### **Strong manufacturing capability**

The Directors believe that the Group possesses some of the most advanced and efficient automatic production facilities of Reinforced Materials and End Products in the PRC. For the manufacture of Reinforced Materials, the Group's major facilities include eight self-assembled automatic production lines for coating, lamination and calendar processes. The Group's production equipments are assembled and customized internally according to specifications designed by its research and development team with parts purchased from the United States, Europe and Japan. To the knowledge of the Directors, most PRC manufacturers adopt either the coating or lamination technique but not a combination of both in the manufacture of Reinforced Materials. Reinforced Materials produced through the coating technique have higher strength, better durability and adhesiveness among layers whereas Reinforced Materials produced through the lamination technique has better air tightness and finer appearance. Besides adopting the coating and lamination processes independently, the Group's production facilities and process were designed to combine both the coating and lamination techniques, leveraging on the advantages of both processes. The Directors believe this ability enables the Group to produce products that better suit the customers' specifications and requirements.

The Directors believe that with these equipment, the Group can enhance its production capacities effectively, strengthen its product quality control capability, and achieve product diversification and economy of scale. The average annual production capacities of the Group's production lines were generally on the increase throughout the Track Record Period. For details, please refer to the paragraph headed "Production capacity" in this section.

### **High quality products with stringent quality control**

The Directors believe that the quality and reliability of the Group's products are essential to its customers and the reputation of the Group. The Group has established a comprehensive quality control system for raw material inspection, quality control at various production process and final testing of finished products to ensure the products complying with the Group's quality standards and international technical specifications and satisfying the requirements of its customers. The Group's Fuzhou Plant production facilities have been awarded ISO9001: 2000 certifications in 2006. For each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, the passing rates of products were over 99% and there had been no returned products by its customers. The Group's major products can pass all the necessary product verification tests required by the customers, which are conducted by independent testing and inspection institutions such as SGS, TUV and Intertek. In addition, the Group also collects feedbacks from customers and conducts product quality surveys on a regular basis to ensure customer satisfaction and improve the quality of customer services.

### **Dedicated, stable and experienced management team**

With an average of over 18 years of industry experience, the Group's executive Directors have in-depth industry and professional knowledge as well as extensive managerial and operational experiences. The Group's chairman and executive Director, Mr. Lin, has more than 24 years of management experience in the polymers industry. The Group's general manager and executive Director, Mr. Zhang Hongwang, has been working in the industry for 13 years and has extensive experience in sales and marketing and brand development. The Group's chief engineer and executive Director, Mr. Huang Wanneng, has been working in the industry for 20 years and possesses expertise in the innovation and technologies for the development of new products, new production techniques and processes, and equipment upgrades. The Group's management team with extensive experiences in management, sales and marketing, production, quality control and financial administration has played a key role in building a result-driven culture that encourages delivering consistent and high-quality products and services, lowering costs and improving market responsiveness.

In addition, the Group has a stable management team. All the executive Directors have been with the Group since its establishment and the senior management has been working in the Group for an average of more than 5 years. The Directors believe that the Group's experienced and stable management team has enabled it to formulate and implement strategies effectively and seize opportunities for the development of new products and expansion into new markets.

### **FUTURE PLANS AND STRATEGIES**

The Group plans to strengthen its leading position in the PRC Reinforced Materials market and increase its market share in the PRC Reinforced Materials and End Products markets. In view of this, the Group will implement the following strategies:

#### **Development of new products**

The Group also intends to apply new kinds of polymer materials such as TPU (Thermoplastic polyurethanes), PVDF (Polyvinylidene fluoride) and PTFE (Polytetrafluoroethylene) in addition to PVC, the currently most widely used polymer, to develop new types of Reinforced Materials with broader applications. TPU type of Reinforced Materials possesses outstanding abrasion-resistant and low-temperature performance characteristics and is commonly used in envelope materials for blimps, air-balloons, air-cushion boats, massage chairs, etc. PVDF type of Reinforced Materials, such as membrane structure material which is a new type of material suitable for construction use, is increasingly applied in large building structures such as gymnasiums, shopping malls, exhibition centers and transportation facilities. Such PVDF membrane materials are more resistant to dirt, light and with high strength, flexibility and transparency. PTFE type of Reinforced Materials is usually used as water-proof, permeable and breathable material for waders and protective clothing to allow sweat from evaporating and improve comfort in wearing. PTFE type of Reinforced Materials has the characteristics of fire retardant, anti-static, anti-smudge, self-cleaning and anti-acidic and alkaline.

The Group intends to launch new categories of End Products, such as air beds and pools in 2010.

### **Expand production capacity**

In view of the increasing demands for Reinforced Materials and End Products in the global market (especially the PRC) and to position itself to expand its customer base and capitalize on this trend, the Group plans to expand its production capacity and product offerings. For Reinforced Materials, as the current available production facility at Fuzhou Plant is already operating at near full capacity with an occupancy percentage of nearly 100% for the gross floor area of Fuzhou Plant as at the Latest Practicable Date, the Group intends to install two additional lamination production lines to increase production capacity of Reinforced Materials by 20 million meters per year and an additional calendar production line to increase production capacity of polymer film by 15,000 tons per year (with an estimated cost of about RMB35 million). The existing calendar production lines will also be upgraded to increase production capacity by about 15.0% (with an estimated cost of about RMB13 million). The Group plans to further construct two production lines for air bed materials with production capacity of 16 million meters per year (with an estimated cost of about RMB8 million). To cater for these expanded production facilities for Reinforced Materials, the Group will construct the second phase of Fuzhou Plant, including production plant and hostel facilities for its staffs (with an estimated total cost of about RMB65 million). Fuzhou Plant phase two with a gross floor area of about 43,211 sq.m. and located right next to the existing Fuzhou Plant will be situated on the currently vacant portion within the Fuzhou Land currently owned by the Group (as defined in paragraph headed "Property Interests" in this section) of which gross floor area of about 35,000 sq.m. will be occupied by the abovementioned expanded production facilities and staff hostel facilities. The Group expects to commence the operation of Fuzhou Plant phase two no later than first half of 2011.

The Group is currently in collaboration with international equipment suppliers in the development of the production lines for TPU envelope material and PVDF membrane structure materials in Fuzhou Plant phase two (with an estimated total cost of about RMB55 million) and plans to complete construction of the production lines by the end of 2010. The Group will implement a plan to further develop a production line for PTFE water-proof, permeable and breathable materials thereafter.

For End Products, the Group plans to install four additional production lines for waders and protective clothing to increase its production capacity by 1,123,000 units per year (with an estimated total cost of about RMB12 million to be funded by the Group's internal resources). The Group plans to install a new production line for each of air bed and pools End Products, with an estimated production capacity of 109,000 and 62,000 units per year, respectively (with an estimated cost of about RMB10 million to be funded by the net proceeds from the Global Offering). The Group expects to have the above new production lines in operation by the end of 2010. As at the Latest Practicable Date, the gross floor area of Xiamen Plant is occupied at an occupancy rate of about 80.0%.

### **Expand sales network and distribution channels**

The Group plans to expand its sales network by increasing the number of sales offices for the Group's products to intensify its coverage within the PRC. In addition to its existing sales offices in Guangzhou, Weihai and Zhengzhou, the Group intends to set up sales offices in other major cities such as Shanghai, Shenzhen, Chengdu, Qingdao, Linyi, Nanning, Nanchang, Wuhan, Changsha to promote sales and provide supporting services to surrounding cities and areas. In particular, the Group will strategically select locations to set up new sales offices depending on the particular products. For Reinforced Materials, sales offices were set up in Zhengzhou and Guangzhou which are major domestic markets for inflatable products. To the best knowledge of the Directors, Qingdao and Weihai are major domestic markets for air tightness products and the Group plans to set up a sale office in Qingdao in addition to its Weihai office to further develop the market for air tightness materials market. For End Products, the Group intends to set up sales offices in major fishery and agricultural areas such as Wuhan (Honghu, Changjiang and Hanjiang areas), Changsha (Dongtinghu), Nanchang (Boyanghu), Linyi, Chaohu and Guangzhou to promote its waders and protective clothing products. For inflatable boats and inflatable toys, the Group plans to develop the markets in provinces and cities with more drifting sites such as Nanning, Changsha, Guangzhou and Wuhan. According to Frost & Sullivan, there are over 1,000 drifting sites in China in 2008 and it is estimated that the number will increase to 3,000 in next 5 years.

For overseas sales channels, besides continuing to utilize the online marketing platform, participating in industry exhibitions and trade fairs, advertising in media and maintaining relationship with its existing customers, the Group will explore the opportunities in the overseas countries and expand its sales and distribution channels including opening overseas sales offices, forming strategic alliance with agents and distributors and liaising with brand product manufacturers in order to increase the Group's sales to overseas market. All these efforts will be funded through the Group's own financial resources.

### **Brand building and product promotion**

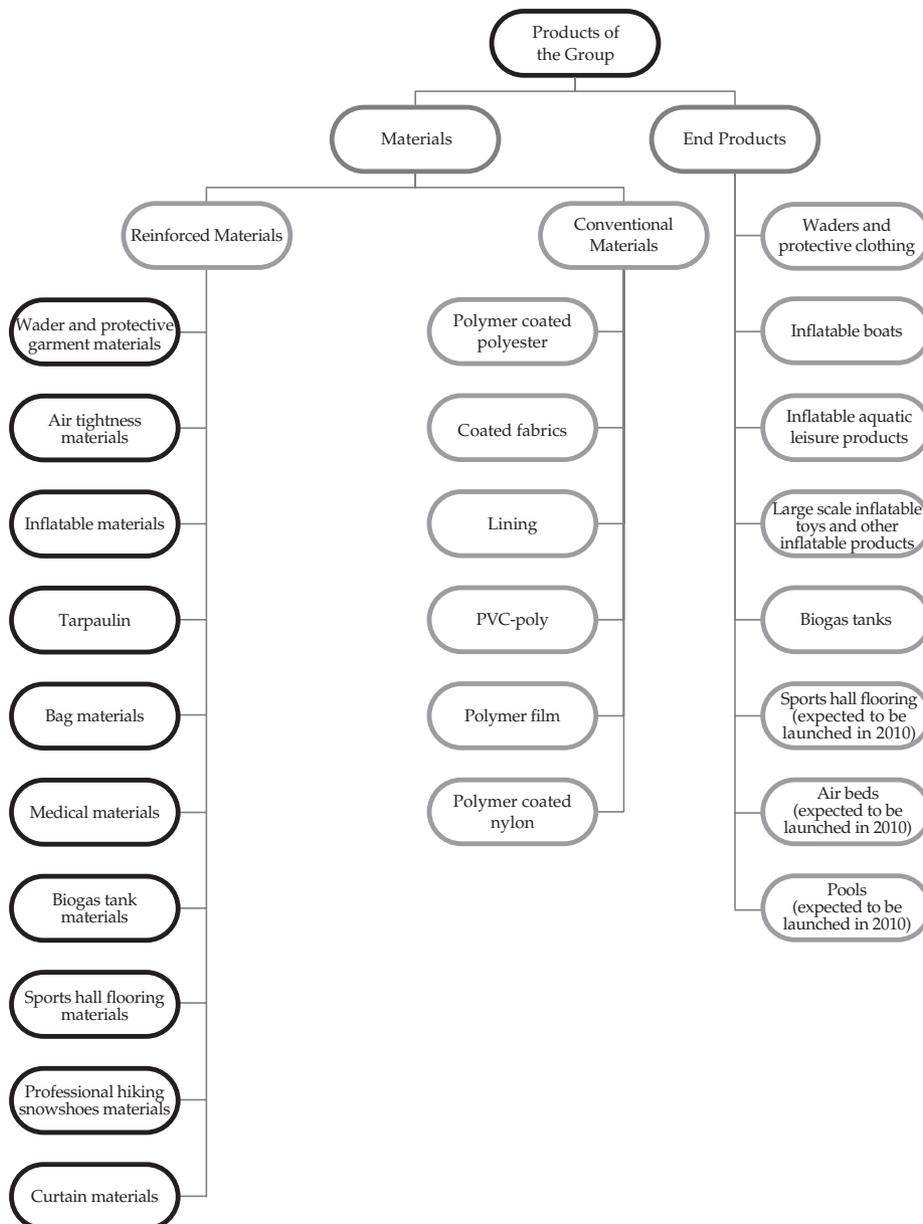
The Group plans to establish itself as a leading brand name of Reinforced Materials and outdoor leisure, recreational, sports and waterproof End Products in the PRC. To further strengthen the brand awareness of "Sijia" brand and develop its End Product brands (Long Standing, Grandsoo and Source of Joy), the Group intends to continue to invest in the promotion and marketing of its brands and products by organizing and participating in industry seminars, exhibitions and trade fairs, sponsoring leisure and entertainment programs and events, establishing or forming partnership with drifting, fishing and water sports clubs and posting of advertisements through different media including magazines, industry journals and Internet.

The Group has started to imprint the Group's "Sijia" logo on the Reinforced Materials to enhance market recognition of the "Sijia" brand. Besides, the Group plans to cooperate with certain end customers by placing the "Sijia" brand tag on their products made of "Sijia" Materials, in order to further build brand awareness.

# BUSINESS

## PRODUCTS

The Group primarily designs, develops, manufactures and sells polymer processed high strength polyester fabric composite materials and other reinforced composite materials (“Reinforced Materials”) and conventional materials (“Conventional Materials”), and together with Reinforced Materials, collectively known as “Materials”). The Group has also expanded into the design, development, manufacture and sale of downstream related inflatable and waterproof products targeting the outdoor leisure, recreation and sports consumer market (“End Products”). The product portfolio of the Group can be adopted in a large number of applications and industries including outdoor leisure and recreation, recreational sports, renewable energy, logistics, construction, labour protection, packaging, medical use, life-saving, advertising and household supplies. The diagram below sets out the products currently offered or expected to be launched by the Group:



## BUSINESS

The table below sets out the revenue of the Group by product category for each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009:

Products	Year ended 31 December			Eight months ended
	2006	2007	2008	31 August 2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Materials</b>				
Reinforced Materials	29,110	47,287	166,660	224,870
Conventional Materials	55,022	94,332	123,976	68,859
<b>End Products</b>	–	7,096	9,008	57,408
Revenue from continuing operations	84,132	148,715	299,644	351,137
<b>Raincoats and general protective clothing – discontinued operation</b>	89,694	100,481	21,585	–
<b>Total</b>	<b>173,826</b>	<b>249,196</b>	<b>321,229</b>	<b>351,137</b>

For each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, turnover of Reinforced Materials accounted for about 34.6%, 31.8%, 55.6% and 64.0%, respectively, of the Group's total turnover (excluding discontinued operation). Turnover of Reinforced Materials increased from about RMB29.1 million in 2006 to about RMB166.7 million in 2008, representing a CAGR of about 139.3%. Turnover of Reinforced Materials for the eight months ended 31 August 2009 was about RMB224.9 million.

**(i) Materials**

The Group's Materials are divided into two types: (a) Reinforced Materials and (b) Conventional Materials.

*(a) Reinforced Materials*

Reinforced Material is high performance composite fabric material made from using fabric materials such as high strength polyester fabrics or nylon as basic material and adding polymer (such as PVC, TPU, etc.) through specific techniques and formulae. Reinforced Materials have a number of high performance characteristics such as (i) high tensile strength, anti-tearing and high adhesion strength; (ii) high abrasion and impact resistance; (iii) flame retardant, waterproof, oilproof, anti-bacterial, anti-smudge and stain resistant, and high acid and alkali resistance; (iv) anti-UV, anti-static, anti-oxidation; and (v) high and low temperature resistance and durable. Due to high performance of Reinforced Materials, it can be used in a wide range of applications and industries.

## BUSINESS

The Group offers a comprehensive portfolio of Reinforced Materials to a wide range of end users manufacturers in various different industries as follows:

<b>Type of products</b>	<b>Main applications</b>	<b>Main characteristics</b>
Wader and protective garment materials	Waders for farming, fishing, chemical engineering, medical, construction, fire fighting, leisure and recreation, mining and tunneling and underground railway construction purposes	Colour fastness, fire retardant, oil proof, anti-acidic and alkaline, anti-coldness, warmth keeping, anti-bacteria and easily washable
Air tightness materials	Inflatable boats such as drifting boats, kayak, motor boats and patrol boats and water leisure and recreational products such as water bicycles, water balls, water totters and icebergs, pools and oil fences	High tensile strength, anti-tearing, and high adhesive strength, outstanding abrasion resistance and high air tightness, strong impact resistance, anti-UV, good weather resistance and temperature resistance
Inflatable materials	Large scale inflatable toys such as slides, castles and bouncers, rock climbing structures, archways, billboards, movie screens, goal posts, function rooms, mazes, racing tracks, children's playgrounds and arenas	High tensile strength, anti-tearing, abrasion and high adhesive strength, strong water pressure resistance, fire retardant, anti-UV, anti-colour migration and colour fastness
Tarpaulin	Military tents, protection covers for military use, leisure tents, covers for container trucks/trains, construction covers and membrane structures	Anti-UV, good weather resistance, stain-resistant treatment, colour fastness, fire retardant, oil proof, acid and alkali resistance
Bag materials	Industrial package bags, specific tool bags, waterproof bags, boxing bags, ice bags, fishing bags, sports bags and luggage carriers	Anti-UV, good weather resistance, oil proof, stain resistance, fire retardant, environmental-friendly with no toxins, anti-bacteria and anti-static

## BUSINESS

Type of products	Main applications	Main characteristics
Medical materials	Medical mattress, hospital beds, healthcare facilities, protective covers, blood pressure cuffs, oxygen bags and antibiotic bags	Fire retardant, liquid and odour resistance, environmental-friendly with no toxins, no allergic substance, anti-bacteria, anti-static, oil proof and stain resistance
Biogas tank materials	Biogas tanks, biogas reservoir bags, biomass and sewage related projects	Strong heat absorption and warmth keeping function, high tensile strength and anti-tearing strength, high air tightness, strong impact resistance, anti-UV, good weather resistance, low temperature resistance, durable
Sports hall flooring materials	Flooring for indoor stadiums, sports centers, athletic meets of schools and courts for badminton, ping-pong, volleyball etc	Anti-bacteria, fire retardant, oil proof, anti-static, stain resistance, no toxic materials, environmental-friendly, abrasion-resistance formula, durable, surface embossing and high motive adhesion
Professional hiking snowshoes materials	Professional hiking snowshoes, sledges and snowboards	Low temperature resistance formula ensuring usage in low temperature, high tensile strength, anti-tearing and high adhesive strength
Curtain materials	Curtains for offices, hotels, residences and warehouses, and automatic rolling gates	Colour fastness, good opaque quality, fire retardant, oil proof, anti-acidic and alkaline, anti-bacteria, stain resistance and easily cleaned

## BUSINESS

The technical specifications of the Group's Reinforced Materials can meet international safety and environmental standards. Up to the Latest Practicable Date, the Group has passed all the necessary product verification testings required by its customers.

For example, out of the Group's Reinforced Materials, the visibility clothing materials of the Group have passed tests for EN471 standard, an European standard regarding the visibility of protective clothing and specifying, among other things, the materials to be used. The Materials of the Group have met the EN71 standard regarding safety of toys, which specifies, among other things, the chemical substances which the toys should contain.

In addition, the Reinforced Materials of the Group can meet international technical specifications such as ISO. For instance, the air tightness materials produced by the Group can reach a tensile strength, anti-tearing and adhesive strength of 4,500N, 430N and 105N, respectively, which is higher than 2,000N, 40N and 50N, respectively as required by ISO's international standards. The Group has obtained the NFPA701 ("Standard Methods of Fire Tests for Flame Propagation of Textiles and Films") certification issued by the United States Fire Administration with respect to its inflatable materials and medical materials which normally apply to large scale inflatable toys and medical mattresses.

According to Frost & Sullivan, as at 30 September 2009, the Group was the only manufacturer who manufactures both Reinforced Materials for and End Products of biogas tanks for biomass and sewage related projects in the PRC.

Biogas tanks require high air tightness and the Directors believe the Group's technical expertise and capabilities allow it to produce both the Reinforced Materials for and End Products of biogas tanks. The Group is currently applying for patent for the technology and design of its biogas tank Reinforced Materials.

In addition, to the knowledge of the Directors, as there are currently no relevant national standards which govern the technical specifications and requirements for biogas tanks in the PRC. In order to promote the development of the Reinforced Materials for and End Products of biogas tanks in the PRC and standardization of technical specifications, the Group has taken the initiative and voluntarily prepared a set of proposed standards for adoption by State Standardization Administration and has submitted the said proposed standards to the Quality and Technical Supervision Bureau of Fuzhou, which, upon approval, will be submitted to the Quality and Technical Supervision Bureau of Fujian province and subsequently to the State Standardization Administration to be adopted as the industry standards.

## BUSINESS

Set out below is a revenue breakdown analysis of the Group's Reinforced Materials business segment:

	For the year ended 31 December						For the eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Wader and protective garment materials	1,396	4.8	3,978	8.4	37,496	22.5	15,542	14.9	63,422	28.2
Air tightness materials	6,683	23.0	12,854	27.2	24,204	14.5	17,619	16.9	43,552	19.4
Inflatable materials	9,207	31.6	8,561	18.1	70,252	42.2	43,992	42.1	63,335	28.2
Tarpaulin	3,410	11.7	5,202	11.0	8,254	4.9	7,051	6.7	12,434	5.5
Bag materials	8,414	28.9	16,692	35.3	26,454	15.9	20,338	19.4	23,553	10.5
Medical materials	-	-	-	-	-	-	-	-	5,616	2.5
Biogas tank materials	-	-	-	-	-	-	-	-	4,839	2.1
Curtain materials	-	-	-	-	-	-	-	-	8,119	3.6
<b>Total</b>	<b>29,110</b>	<b>100.0</b>	<b>47,287</b>	<b>100.0</b>	<b>166,660</b>	<b>100.0</b>	<b>104,542</b>	<b>100.0</b>	<b>224,870</b>	<b>100.0</b>

According to Frost & Sullivan, for the PRC market of Reinforced Materials, the Group ranked number four with about 3.0% market share in terms of turnover in 2008 and, with a two-year CAGR of about 139.3%, the Group had a higher growth rate than the other top manufacturers and the industry average from 2006 to 2008. According to Frost & Sullivan, the market share of the Group increased to about 4.5% and was ranked number one in terms of turnover for the eight months ended 31 August 2009. Under the outdoor sub-sector of the PRC Reinforced Materials market, the Group ranked number one and with about 10.4% market share in wader and protective garment materials, ranked number one and with about 28.1% market share in inflatable materials and ranked number one and with about 10.5% market share in air tightness materials in terms of turnover in 2008. The Group ranked number one and with about 20.4% market share in wader and protective garment materials, ranked number one and with about 29.0% market share in inflatable materials and ranked number one and with about 18.2% market share in air tightness materials in terms of turnover for the eight months ended 31 August 2009.

Revenue generated from the abovementioned three types of products and percentage of the Group's total revenue from continuing operations during the Track Record Period are as follows:

	For the year ended 31 December						For the eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	% of Group's revenue	RMB'000	% of Group's revenue	RMB'000	% of Group's revenue	RMB'000	% of Group's revenue	RMB'000	% of Group's revenue
Wader and protective garment materials	1,396	1.7	3,978	2.7	37,496	12.5	15,542	7.7	63,422	18.1
Inflatable materials	9,207	10.9	8,561	5.8	70,252	23.4	43,992	21.7	63,335	18.0
Air tightness materials	6,683	7.9	12,854	8.6	24,204	8.1	17,619	8.7	43,552	12.4

## BUSINESS

### (b) *Conventional Materials*

The Group's Conventional Materials are mainly utilized to produce labour protective clothing and raincoats. The Group's Conventional Materials include polymer coated polyester, polymer film, polymer coated nylon, PVC-poly, coated fabrics and lining, which are made from fabrics such as polyesters, nylon, or composite fabrics (other than high strength polyester fabrics), through less sophisticated production process and formulae with features requirement normally lower than that of Reinforced Materials.

<b>Type of products</b>	<b>Main applications</b>	<b>Main characteristics</b>
Polymer coated polyester	Production of raincoats, parkas, daily necessities and tents	Soft, good heat sealing ability, waterproof, moisture-proof and wind resistant
Coated fabrics	Production of military suit, police flight suit, protective clothing, outdoor clothing and labour protective clothing	Light weight, excellent luminance factor, flame retardant, waterproof, water vapor permeable and breathable
Lining	Production of raincoats, clothing and bags	Soft
PVC-poly	Production of raincoats and aprons for labour protection	Heat sealing, waterproof, moisture-proof, puncture resistant, stable size, low temperature resistant, flame retardant, acid and alkaline resistant
Polymer film	Production of daily necessities, raincoats, aprons, bags, advertising materials, labour protective clothing, packing materials, swimming pools, inflatable toys and agricultural film	Soft, waterproof, anti-UV, low temperature resistant and flame retardant
Polymer coated nylon	Production of raincoats, parkas, labour protective clothing, wader and tents	Soft and comfortable texture, good colour fastness, excellent heat sealing ability, waterproof, moisture-proof, wind resistant, warmth keeping and durable

## BUSINESS

Set out below is a revenue breakdown analysis of the Group's Conventional Materials business segment:

	For the year ended 31 December						For the eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Polymer film	19,118	34.7	16,101	17.1	14,363	11.6	11,600	13.0	18,817	27.3
Polymer coated polyester	25,454	46.3	44,938	47.6	73,163	59.0	54,489	60.8	38,544	56.0
Lining	2,021	3.7	4,094	4.3	3,836	3.1	2,773	3.1	1,539	2.2
Polymer coated nylon	945	1.7	967	1.0	480	0.4	408	0.5	3,317	4.8
PVC-poly	6,368	11.6	14,048	15.0	26,561	21.4	15,002	16.7	5,684	8.3
Coated fabrics	1,116	2.0	14,184	15.0	5,573	4.5	5,282	5.9	958	1.4
	<u>55,022</u>	<u>100.0</u>	<u>94,332</u>	<u>100.0</u>	<u>123,976</u>	<u>100.0</u>	<u>89,554</u>	<u>100.0</u>	<u>68,859</u>	<u>100.0</u>

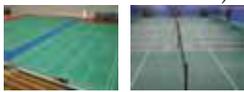
The Group's Conventional Materials were principally sold to the raincoat and labour protective clothing manufacturers and trading companies.

### (ii) End Products

Starting from 2009, with a view to capturing the expansion opportunities arising from the growing demand in the PRC and overseas in recent years, the Group has started the large scale production of End Products, following the small scale production of inflatable toys since 2007. As at the Latest Practicable Date, the Group offers and plans to offer the following portfolio of End Products:

Type of products	Major targeted markets	Brand names and logos
Waders and protective clothing 	Farming, aquaculture, fishing, chemical engineering, fire fighting, leisure and recreation, mining and construction	姜太公, 致富郎, 水傳說 
Inflatable boats 	Maritime, port docking, military, drifting tourism spots, aquatic entertainment, recreational sports, life-saving	Long Standing 

## BUSINESS

Type of products	Major targeted markets	Brand names and logos
Inflatable aquatic leisure products 	Aquatic parks, recreational sports, recreation and leisure	Long Standing 
Inflatable products (including large scale inflatable toys, inflatable tents, billboards and others) 	Outdoor entertainment parks, shopping malls, schools, sports centres, parks, advertisement	Long Standing 
Biogas tank 	Sewage and biomass related projects	Grandsoo 
Sports hall flooring (expected to be launched in 2010) 	Sports halls in schools, sports stadiums	Grandsoo 
Air beds (expected to be launched in 2010) 	Household, office, hotel and outdoor camping sites	Grandsoo 
Pools (expected to be launched in 2010) 	Household, entertainment, outdoor camping sites	Source of joy 

### *Waders and protective clothing*

Waders and protective clothing with main features of waterproof, oil proof, acid and alkaline resistant, anti-coldness and warmth keeping and fire retardant, can be widely used in various industries, such as leisure and recreation, construction, fire fighting, farming, fishing and aquaculture. Being the essential protective equipment for the operation and development in such industries, waders and protective clothing can provide labour safety and protection to workers and end users.

### *Inflatable boats and inflatable aquatic leisure products*

Inflatable boats mainly comprise drifting boats, kayaks, motor boats and life-saving boats, while inflatable aquatic leisure products include water bicycles, walking balls, water totters, icebergs and other large scale aquatic game products.

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Inflatable boats and inflatable aquatic leisure products can be mainly used in aquatic recreational sports, sea border defense, customs patrolling, maritime rescuing or flood rescuing. The products' main features include high tensile strength, tearing resistant, high adhesive strength, high air tightness, abrasion resistant and impact resistant.

### *Inflatable products*

Inflatable products include large scale inflatable toys and other inflatable products such as inflatable tents and billboards. Large scale inflatable toys principally comprise inflatable amusement facilities and toys (such as slides, castles, obstacle courses, bouncers and climbing walls), and outdoor decoration (such as inflatable cartoon character, and rainbow arch). Large scale inflatable toys can be widely used in outdoor leisure and recreation, entertainment and amusement facilities and outdoor decoration. The main characteristics of inflatable products are fire retardant, anti-UV, high tensile strength, anti-tearing and adhesive strength, abrasion resistant and strong water pressure resistant. The Group has obtained the NFPA701 ("Standard Methods of Fire Tests for Flame Propagation of Textiles and Films") certification issued by the United States Fire Administration with respect to its inflatable materials which normally are used to produce large scale inflatable toys.

### *Biogas tanks*

Biogas tanks are used in the fermentation of biodegradable materials such as manure, sewage, municipal waste, green waste and energy crops to produce biogas, which can be utilized as a fuel. Biogas tanks used in connection with modern biodegradable waste management to produce renewable fuel can be found in piggery, farms and rural areas. Pursuant to a document jointly issued by the NDRC and the Ministry of Agriculture (農業部) (發改辦農經[2008]2519號) (Fa Gai Ban Nong Jing [2008] No. 2519), in order to support the construction of biogas tanks in rural areas of the PRC, the PRC government has increased the level of subsidies payable to rural households. In addition, the construction of mid and large-scale biogas tanks is encouraged. The Group's biogas tanks have the main characteristics of strong heat absorption and warmth keeping function, high tensile strength and anti-tearing strength and high air tightness. The Group commenced the manufacture and sales of biogas tanks in 2009.

Set out below is a revenue breakdown analysis of the Group's End Products business segment:

	For the year ended 31 December						For the eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Inflatable products	-	-	7,096	100.0	9,008	100.0	8,866	100.0	2,344	4.1
Biogas tanks	-	-	-	-	-	-	-	-	445	0.8
Inflatable aquatic leisure products	-	-	-	-	-	-	-	-	389	0.7
Inflatable boats	-	-	-	-	-	-	-	-	54,230	94.4
	<u>-</u>	<u>-</u>	<u>7,096</u>	<u>100.0</u>	<u>9,008</u>	<u>100.0</u>	<u>8,866</u>	<u>100.0</u>	<u>57,408</u>	<u>100.0</u>

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### (iii) Discontinued operation – raincoat and general protective clothing

Before the manufacture and sale of Reinforced Materials, the Group was also engaged in the raincoat and general protective clothing operation. The raincoat and general protective clothing were manufactured by using the Group's Conventional Materials as raw materials. In May 2008, the Group discontinued its raincoat and general protective clothing operation with a view to focusing on delivering Reinforced Materials.

### AWARDS AND RECOGNITIONS

Since its establishment, the Group has obtained various awards and recognitions as follows:

Awards and recognitions	Awarded by	Year
New High Technology Enterprise in Fujian Province 福建省高新技術企業	Fujian Province Department of Science & Technology	September 2006
Technologically Advanced Foreign-owned Enterprise 外商投資先進技術企業	Fujian Provincial Department of Foreign Trade and Economic Cooperation	November 2006
Fujian Province Trustworthy Enterprise 福建省守合同重信用企業	Administration for Industry & Commerce of Fujian Province	April 2007
Gold Award in the Innovation Results 海峽兩岸職工創新成果金獎	Organizing Committee of Cross-strait Trade Union Innovation Exhibition	June 2007
Second Prize of Fuzhou Outstanding New Product 福州市優秀新產品二等獎	The People's Government of Fuzhou	December 2007
Top 10 of major industries of Fujian Province 福建工業主要行業前十強	Enterprise Assessment Centre and Association of Fujian Province	August 2008
Second Prize of Science and Technology Progress in Fuzhou 福州市科技進步二等獎	The People's Government of Fuzhou	September 2008
New High Technology Enterprise in Fujian Province 福建省高科技技術企業	Office of Science and Technology in Fujian Province, Department of Finance in Fujian Province, Office of State Tax Administration of Fujian Province and Office of Local Tax Administration of Fujian Province	November 2008

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Awards and recognitions	Awarded by	Year
Third Prize of Fuzhou Outstanding New Product 福州市優秀新產品獎三等獎	The People's Government of Fuzhou	December 2008
Fujian Famous Brand Product 福建名牌產品	The People's Government of Fujian	December 2008
2007-2008 Fujian Province Trustworthy Enterprise 二零零七至二零零八年度福建省守合同重信用企業	Administration for Industry & Commerce of Fujian Province	December 2008
Independent Innovative Products in Fujian Province 福建省自主創新產品	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	June 2009
Second Prize of Science and Technology Progress in Fuzhou 福州市科技進步二等獎	The People's Government of Fuzhou	October 2009
Enterprise Technology Center in Fuzhou 福州市企業技術中心	Economic and Trade Commission in Fuzhou	December 2009
Fujian Outstanding New Product 福建省優秀新產品	The People's Government of Fujian Province	December 2009
Fuzhou Outstanding New Product 福州市優秀新產品	The People's Government of Fuzhou	December 2009
Year 2008 Famous Trademark in Fujian Province 2008年度福建省著名商標	Administration for Industry & Commerce of Fujian Province	December 2009

## **PRODUCTION**

### **Production planning for new products**

#### *Reinforced Materials*

The Group's market development division, through participation in professional exhibition in the PRC or overseas as well as domestic and international market research activities, can promptly be familiar with the industry development trends, customer information and information of new materials and new technology in the global market. The market development division regularly prepares business reports suggesting plans of new product development for Reinforced Materials.

The Group's research and development center considering the development objective of the Group and the development plan of new products from market development division, prepares the project proposal for the development of new products, according to the market demand or corporate development objective, which will be implemented upon the approval of general manager. A project head engineer will then be assigned and a project research and development team will be established. The project head engineer is responsible for preparation of the time schedule of the research and development project and conducting market research and visiting the Group's customers, in order to fix various features indicators for the development of the new products. The materials testing engineer is responsible for the testing of raw materials, while the process engineer is responsible for the analysis of the techniques required for the production of new products and assesses whether it is necessary to conduct technique design and improvement. The process engineer will then work out the specific production techniques for each new product, including the optimal factors such as temperature, pressure and speed of the production process. Equipment engineer assesses the adequacy of the existing equipment to support the production of new products. If the existing equipment cannot meet the new product development, the project engineer will submit the proposal for new equipment purchase or the equipment customization and technology advancement to the Board of Directors for approval.

When production techniques and equipment technology are proven to be feasible for production of the new products, the formulation engineer will then establish the material formulae. Leverage on its strong research and development capabilities, the Directors believe the Group is able to produce Reinforced Materials of higher quality that can meet international standards. It is mainly due to the specifically designed material formulae for the Group's new products. In order to satisfy the specific usages, features indicators and functional performance of the new products required by the customers, the engineer will adjust the composition and specification of each raw material to be inputted to the production process, resulting in the optimal material formulae of the new products. At the same time, the Group will also take into account the cost analysis to assess if the formula is economically viable.

## BUSINESS

With the abovementioned specific production technique, customized equipment and specifically designed material formulae, the Group can launch to the customers new products of high quality and technologically advanced.

At the early stage of the new product development, trial production is first conducted at the laboratories to finalize the technique processes and conditions of the new products. The Group will also seek technical advice and support from its technical consultants, Professor Gu Zhenya (顧振亞) of Tianjin Polytechnic University (天津工業大學) and Professor Zheng Yuying (鄭玉嬰) of Fuzhou University (福州大學). Upon successful trial production, a small quantity of such new products will be manufactured in the Group's production lines to examine whether various features of the new products can meet the expected requirement and then generate samples for the customers' confirmation.

The final material formulae, technique conditions, features and product quality indicators will be recorded on documents for the roll-out of the mass production of the new products.

### *End Products*

Similar to Reinforced Materials, the Group's market development division regularly prepares business reports exploring plans of new product development for End Products.

The Group's research and development centre will then assess whether the Group's existing Reinforced Materials can be utilized to produce the End Products satisfying the specifications and features required by the customers. If not, the research and development centre will make appropriate adjustments to the existing production technique and material formulae of the Reinforced Materials, in order to customize the features of the Reinforced Materials, suitable for the production of the specific End Products.

After the approval by the general manager on the new product development plan, design division will work on the product design for the appearance, size and style of the End Products. The product design will be prepared in electronic graphics. Depending on the requirement of the customers, certain customers will even provide their own product design.

Based on the product design of the customers or the design division, a small quantity of End Products will be produced for testing purpose and sampling for customers' confirmation. Mass production of the End Products can be launched upon the acknowledgement of the quality and features of the sample products by the customers.

**Production process**

*Reinforced Materials*

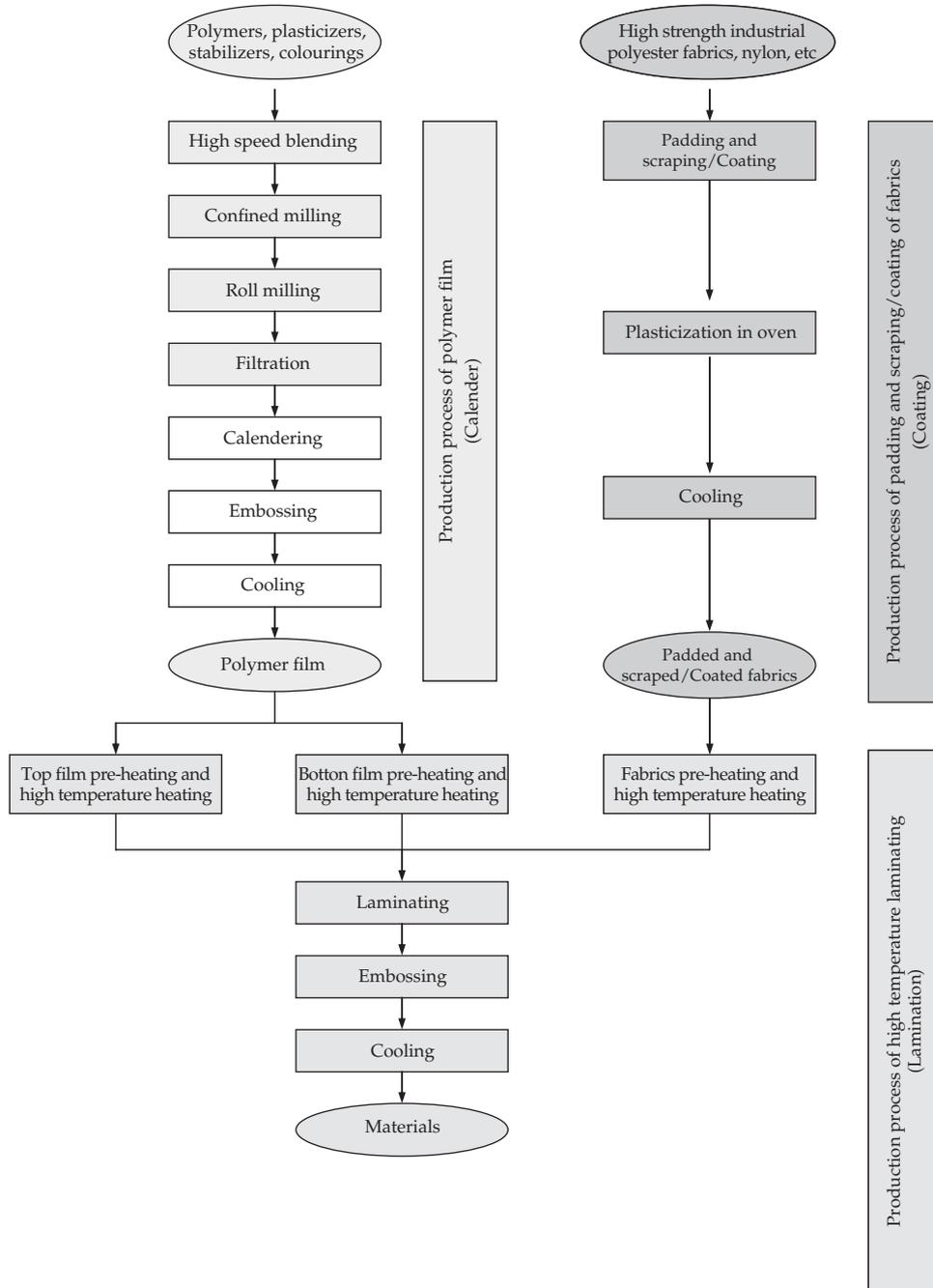
The production process of the Group's Reinforced Materials can be divided into (i) calender; (ii) coating; and (iii) lamination. Calender is the process to smooth out the polymer by high pressure rollers to produce polymer film with high gloss. Coating is the process to cover the paste (prepared based on specific material formulae) on one side or both sides of the fabrics. Lamination is the process to unite layers of polymer films with one side or both sides of fabrics by way of heat and/or pressure, to produce Reinforced Materials.

Reinforced Materials produced through the coating technique have higher strength, better durability and adhesiveness among layers whereas those produced through the lamination technique has better air tightness/sealing and finer appearance. Besides adopting the coating and lamination processes independently, the Group's production process was designed to combine both the coating and lamination techniques, leveraging on the advantages of both processes.

# BUSINESS

The following flow chart illustrates the major steps involved in the production process for the Group's Reinforced Materials:

## Reinforced Materials



Description of the production process:

- I. Production process of polymer film (calender process)
  - (1) High speed blending: Prepare raw materials with required quantities according to the formula and mix in sequence. Blend the raw materials in a high speed until well-mixed;
  - (2) Confined milling: Plasticize the raw materials and further mix with colourings and recycled residue materials;
  - (3) Roll milling: For further plasticization;
  - (4) Filtration: Filter impurities and add supplements evenly into four rollers;
  - (5) Calender: Form and adjust thickness and width of the film according to specifications;
  - (6) Embossing: Press different patterns and gloss;
  - (7) Cooling: Firm up the shape according to specifications by cooling.
  
- II. Production process of padding and scraping/coating of fabrics (coating process)
  - (1) Padding and scraping: Immerse high strength industrial polyester fabric into the polymer resin and form initial shape by pulling through knobbing rolls;
  - (2) Coating: Coat a thin layer of paste (prepared with specific material formula) onto the surface of the fabrics
  - (3) Plasticization in oven: Dry and plasticize well-rolled materials;
  - (4) Cooling: Firm up the shape by cooling.

III. Production process of high temperature laminating of Materials (lamination process)

- |                                       |  |
|---------------------------------------|--|
| (1) Pre-heating top and bottom films: | Soften the top and bottom films as well as the fabrics padded with polymer resin by pre-heating; |
| (2) High temperature heating:         | Further soften the materials by heating;   |
| (3) Laminating:                       | Fuse films and fabrics together to form the shape in high temperature;                           |
| (4) Embossing:                        | Press required patterns and gloss;   |
| (5) Cooling:                          | Firm up the shape by cooling.  |

*Conventional Materials*

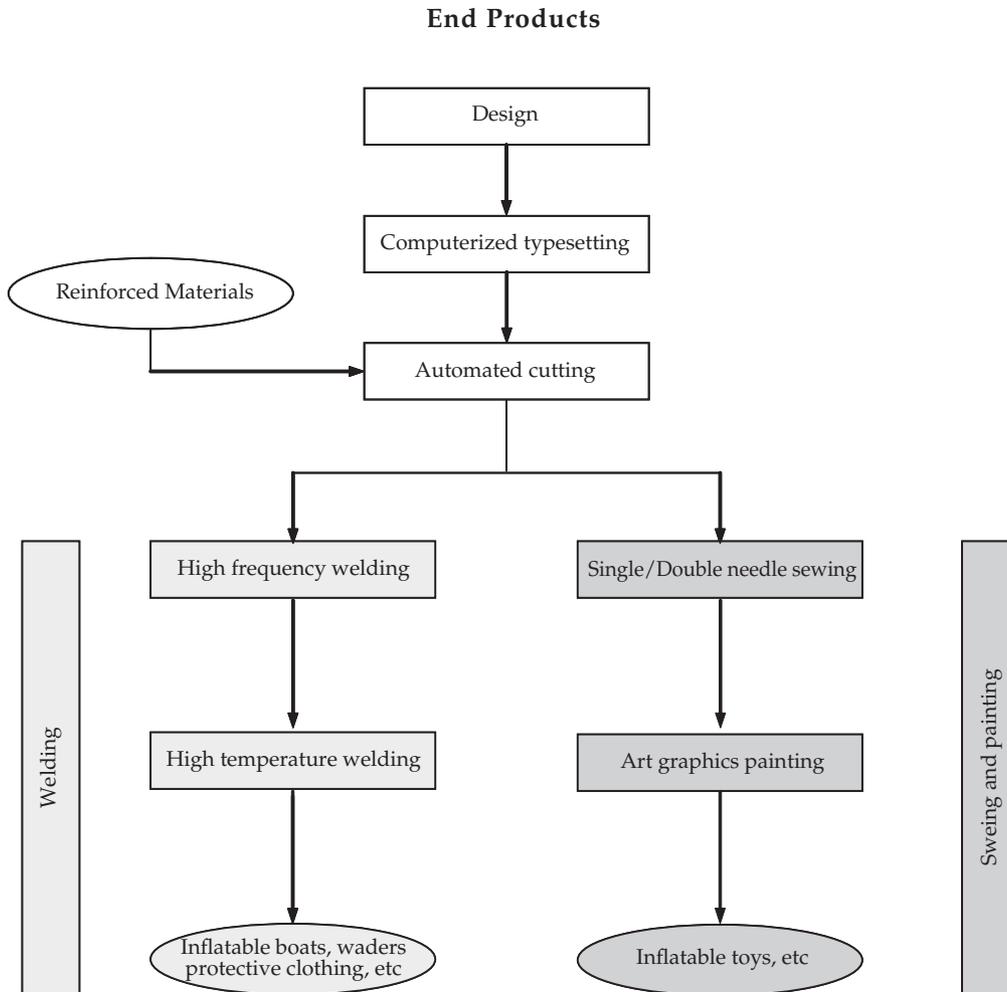
The production process of the Group's Conventional Materials is less sophisticated than that of Reinforced Materials. Compared to production of the Reinforced Materials, which mainly involves a combination of the calender, coating and lamination process, the Conventional Materials are normally manufactured by only one single production step, such as through the calender process (e.g. polymer film) or the coating process (e.g. coated fabrics) or the lamination process (e.g. PVC-poly). Some types of Conventional Materials, depending on the required physical features, are produced by a combination of the calender and coating process (e.g. polymer coated nylon).

For the detailed description of the production process of the calender, coating and lamination process, please refer to the sub section headed "Reinforced Materials" above in this section.

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## End Products

The following flow chart illustrates the major steps involved in the production process for the Group's End Products:



Description of the production process:

(1) Design:

- A: Product design by design team according to market analysis and market demand anticipation.
- B: Design team designs products according to the customers' requirements and specifications.
- C: Design team's design will incorporate patterns provided by the customers.

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- |     |                           |  |
|-----|---------------------------|--|
| (2) | Computerized typesetting: | Scan and input the product design plan to computer for computerized typesetting of the required images and graphics  |
| (3) | Automated cutting:        | Cut the materials according to the design as required by automatic cutting machines  |
| (4) | Welding:                  | <p>Melt plastic with high temperature to connect the Materials. Welding features high strength and good air tightness to prevent air leakage, which is generally used for inflatable boats and other air tightness products</p> <p style="margin-left: 20px;">A. High frequency welding: Use moulds to weld the layers with large areas</p> <p style="margin-left: 20px;">B. High temperature welding: Weld the small scraps of materials to form the required shape</p>   |
| (5) | Sewing:                   | <p>Sew the fabrics with needles and threads, generally used for inflatable toys</p> <p style="margin-left: 20px;">A. Single needle sewing: principally used for stitching the seam of various cartoons on inflatable toys and the seam of other large-sized parts, as well as that of thin materials</p> <p style="margin-left: 20px;">B. Double needle sewing: principally used for stitching the seam of parts on inflatable toys that bears greater strength and stress, as well as that of thicker materials</p> |
| (6) | Art graphics painting:    | Paint the art graphics in the appropriate areas of the products manually, to enhance the artistic appearance   |

The Group normally adopts the make-to-order arrangements for its End Products, and the production of End Products is normally scheduled upon the receipt of the sales order from the customers.

### **Production facilities**

The Group currently owns each production plant in Fuzhou and Xiamen, Fujian Province, the PRC. The production plant in Fuzhou (“Fuzhou Plant”) occupies a parcel of land with a site area of about 65,107 square meters with a gross floor area of about 11,586 square meters. The Fuzhou Plant commenced production in August 2003, which is

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principally engaged in the design, development, manufacture and sale of Reinforced Materials and End Products. In view of the increasing demand for End Products both domestically and globally, the Group developed a new production plant in Xiamen (“Xiamen Plant”) occupying a parcel of land with a site area of about 5,232 square meters with a gross floor area of about 8,736 square meters. The Xiamen Plant commenced production in August 2009, which is engaged in the design, development, manufacture and sale of End Products (except large scale inflatable toys).

### Production capacity

The following table sets out the average designed capacities and utilization rates during the Track Record Period of Fuzhou Plant.

	2006			For the year ended 31 December 2007			2008			Eight months ended 31 August 2009		
	Actual production	Production capacity	Utilization rate (%)	Actual production	Production capacity	Utilization rate (%)	Actual production	Production capacity	Utilization rate (%)	Actual production	Production capacity	Utilization rate (%)
<u>Materials (note 11)</u>												
<u>Calender process (note 3)</u>												
Production line A:												
Polymer film (tonne)	3,590	8,800	40.8	4,800	8,800	54.5	10,538	11,000	95.8	10,712	9,500	112.8
Production line B: (note 4)												
Polymer film (tonne)	2,000	5,500	36.4	435	5,500	7.9	500	6,800	7.4	3,000	4,750	63.2
Polymer coated polyester (million m)	14.44	43.00	33.6	20.03	46.00	43.5	23.30	49.00	47.6	13.41	34.50	38.9
Other Conventional Materials (million m)	4.00	35.80	11.2	15.19	36.80	41.3	18.23	38.00	48.0	1.51	26.50	5.7
Total utilization rate of production line B			81.2			92.7			103.0			107.8
<u>Coating process</u>												
Fabrics (million m)	15.92	28.00	56.9	25.18	28.00	89.9	27.73	30.00	92.4	14.61	20.00	73.1
<u>Lamination process</u>												
Materials (million m) (note 6)	2.85	3.30	86.4	3.91	5.00	78.2	12.32	15.00	82.1	16.16	16.50	97.9
<u>End Products</u>												
<u>Inflatable products:</u>												
Large scale inflatable toys (unit)	-	-	-	146	note 8	note 8	216	note 8	note 8	108	note 8	note 8
Other inflatable products, such as inflatable tents, billboards and others (unit)	-	-	-	-	-	-	-	-	-	3,881	note 8	note 8

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### Notes:

1. The designed capacity of all the production lines are calculated, assuming there are 26 working days for each month during the Track Record Period and assuming calender production lines, coating production lines and lamination production lines operate 24 hours, 12 hours and 24 hours per working day respectively, unless otherwise indicated.
2. For the production lines with utilization rate greater than 100%, it is due to overtime work arranged to meet with specific sales order.
3. There are 2 production lines for calender process, with production line A exclusively for the production of polymer films and production line B for the production of polymer films, polymer coated PVC and other Conventional Materials. Since the production capacity for the calender process of polymer film will vary significantly depending on the thickness of different models of polymer film, for illustrative purpose, the production capacity for polymer film is expressed assuming the Group produced only one standard thickness of polymer film to facilitate meaningful comparison of production capacity throughout the Track Record Period.
4. For illustrative purposes, the designed capacity of production line B of the calender process is calculated, assuming it is entirely utilized to produce only one specific type of products among polymer films, polymer coated polyesters and other Conventional Materials throughout the Track Record Period.

Polymer films, polymer coated polyesters and other Conventional Materials are sharing the capacities of production line B. The exact allocation of capacities of production line B to produce each type of polymer films, polymer coated polyesters and other Conventional Materials will depend on the respective demand and sales order from customers and the planned production schedule of the Group. The utilization rate for certain Conventional Materials is relatively low, for example, about 5.7% for other Conventional Materials for the eight months ended 31 August 2009. It is due to the fact that production line B focused more on the manufacture of polymer films and polymer coated polyesters during the eight months ended 31 August 2009. The Directors consider that as polymer films, polymer coated polyesters and other Conventional Materials are sharing the capacities of production line B, in assessing the utilization of production line B, investors should consider the aggregate utilization rate for these products in order to arrive at the full picture. The low utilization rate in 2009 for other Conventional Materials only represented the relative smaller portion of capacity being allocated to other Conventional Materials. However, as a matter of fact, production line B was fully utilized for production for the period ended 31 August 2009 with aggregate utilization rate of about 107.8%.

5. The utilization rate of the Group's production lines are generally on the increase throughout the Track Record Period. This is due to the increase in the number of the Group's customers, sales volume and varieties of products offered, which resulted in increased production volume of the Group over the Track Record Period.
6. The significant increase in production capacity of lamination process in 2008 and 2009 is due to (i) the addition of one new production line each in July 2007 and December 2007, respectively; and (ii) in 2008 and 2009, the Group increased the operating hours from 12 hours to 24 hours per working day for certain production lines.
7. Fuzhou Plant is principally engaged in the manufacture of Conventional Materials and Reinforced Materials, while there is also one production line in Fuzhou Plant designed to produce End Product of large scale inflatable toys and other inflatable products.
8. Inflatable products of the Group include wide ranges of different products, such as slides, castles, bouncers, climbing walls, inflatable cartoon character, inflatable tents and billboards. Also, the inflatable products are normally tailor-made according to the customers' requests with customized size, shape and outlook, in which each of such specifications will affect the time required to manufacture the inflatable products. Therefore, the Directors are of the view that it is not practical to disclose the production capacities of the Group's inflatable products, given the large varieties of products offered and the significant variation of specifications among them.

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9. The Directors consider that although Fuzhou Plant is operating at near or even exceeded full capacity, the Group has not been experiencing any bottleneck on production during the Track Record Period. The Group has adopted the ERP system to properly assess the available production capacities and to manage the receipt of sale orders and the production schedule, in order to meet the expected delivery time for the customers. Normally, there are 26 working days in each month for the Group. In case of urgent order from customers, the Group can also arrange overtime work so as to adjust the production capacities of the production facilities occasionally.
10. As disclosed in the paragraph headed "Expand production capacity" in this section of the prospectus, Fuzhou Plant phase two will be constructed to expand the Group's production capacity and is expected to commence operation by the first half of 2011. Upon the commencement of operation of Fuzhou Plant phase two, the production capacity of lamination process will be increased by about 10 million meters per year, while that of calendar process on polymer film will be increased by about 15,000 tons per year.
11. The Conventional Materials produced from calendaring process will either be sold as final products to the external customers of Conventional Materials or be utilized internally as raw materials in the manufacture of Reinforced Materials which will further go through coating and lamination processes. Therefore, the information set out on the table above included the production capacities of the Fuzhou Plant for Materials collectively (including both Reinforced Materials and Conventional Materials) by production processes.

During the Track Record Period, the production capacities of Fuzhou Plant increased, owing to the technology/techniques advancement and the replacement of production equipment with better efficiency. In addition, the Group has added one more lamination production line each in July 2007 and December 2007, respectively.

In August 2009, the Group commenced the operation of Xiamen Plant, focusing on the business of End Products (except large scale inflatable toys). The following table sets out the designed annual capacity of Xiamen Plant as at the Latest Practicable Date:

<b>End Products</b>	<b>Number of production lines</b>	<b>Designed annual production capacities (unit)</b>
Waders and protective clothing	2	561,600
Inflatable boats/inflatable aquatic leisure products/biogas tanks	2	18,720

*Notes:*

1. The designed capacity of all the production lines is calculated, assuming there are 26 working days for each month.
2. For the eight months ended 31 August 2009, nil waders and protective clothing was produced by the Group, since it was newly launched in September 2009, while the Group's actual production quantity of inflatable boats, inflatable aquatic leisure products and biogas tanks (manufactured in Fuzhou Plant before August 2009 and production lines moved to Xiamen Plant since August 2009) aggregately amounted to about 10,440 units for the same period.

**RAW MATERIALS AND SUPPLIERS**

**Raw materials**

The raw materials used by the Group for production can be broadly categorized into (i) polymers and additives; (ii) fabrics; and (iii) parts and components.

*(i) Polymers and additives*

The Group requires polymers and additives including plasticizers, stabilizers, flame retardants, cold-resistant agents, anti-electrostatics agents and colorants as raw materials for the production of Reinforced Materials. The major raw materials of the Group’s production are polymer resins and plasticizers.

Polymer, of which the most commonly used is Polyvinylchlorid (“PVC”) , is a type of material with wide ranges of applications. Its heat resistance and tensile strength and ductility can be enhanced by the use of additives. Currently, it is regarded as more comprehensive which can serve better functional performance among all types of polymer materials. Polymer features good chemical corrosive resistance, electrical insulation, fire retardant, light weight and high strength and can be easily processed. The products made from polymer are widely used in industrial, agricultural, construction, electronic, electrical and automobile industries. The Group selects polymers with different properties according to the specifications of the Group’s products.

Plasticizer is the most commonly used additives in new Reinforced Materials industry and plays an important role in the development of new Reinforced Materials. By adding different proportions of plasticizers, the Group can adjust the softness and flexibility, improve tensile strength, bending deflection, toughness and impact resistance, reduce the glass transition temperature, expand the applications of polymers at lower temperatures, strengthen adhesion of different base materials, increase the plasticity of Reinforced Materials during the production processes, improve lubrication effectiveness and reduce frictions of its products.

Based on the properties and specifications of products, other additives, such as stabilizers, flame retardants anti-UV agents, cold-resistant agents and anti-electrostatics agents are used according to the formulae in the production processes.

*(ii) Fabrics*

The following fabrics are commonly used for the production of the Group’s Reinforced Materials:

<b>Fabrics</b>	<b>Types of Reinforced Materials produced</b>
High strength polyester fabrics	All types of Reinforced Materials
Knitted fabrics	Wader and protective garment materials
Nylon	Wader and protective garment materials

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The Group's products are manufactured with different types of fabrics, depending on the requirement of customers in terms of physical features and performance of the products.

The main characteristics of the fabrics are as follows:

High strength polyester fabrics:

1. Light weight, environmental-friendliness, fire retardance, heat insulation, temperature keeping, moisture-proof, acid and alkaline resistance and corrosive resistance;
2. High stability, excellent electric conductivity, durability, ageing resistance and being easy to weld and adhere;
3. Strong impact resistance and high tensile strength; and
4. Glossy surface, brightly coloured and with wide applications as decorations.

Nylon – High polarity and strong crystalloid, shiny, durable, abrasion resistant, chemical resistant and antiseptic.

Knitted fabrics – High flexibility, soft, glossy and bouncy.

### *(iii) Parts and components*

Parts and components mainly represent small parts required in the production of End Products and low value consumables used during the production process.

### **Suppliers**

A majority of the raw materials used by the Group were sourced from suppliers based in the PRC. Sourcing and production management center of the Group assigns staff to conduct site visits of domestic raw material suppliers in different regions regularly and prepares the list of Raw Materials suppliers (原材料供應商名單) which includes all qualified suppliers. This enables the Group to compare the raw materials prices of various suppliers according to their quotations in order to minimize sourcing costs. In addition to prices of the raw materials, the suppliers are also assessed based on a number of criteria, including quality of the raw materials supplied, stability of supply in the past, delivery time, as well as production scale of the suppliers.

The Group will maintain long-term relationships with the suppliers of the principal raw materials such as polymers, plasticizers and fabrics. Some of the major suppliers have started to supply raw materials to the Group since 2003 (the time at which Fujian Sijia commenced its business). The Group's sourcing strategy is to avoid heavily relying on any single supplier for the principal raw materials and the Group has maintained close contact with at least three suppliers in respect of the same type of principal raw materials, in order to ensure stable supply and cost competitiveness.

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For each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, purchases from the Group's five largest raw materials suppliers in aggregate accounted for about 32.2%, 34.3%, 50.3% and 37.5%, respectively, of the Group's total amount of purchases. Purchases from the single largest raw materials supplier for the same periods accounted for about 9.4%, 11.1%, 19.5% and 10.8%, respectively, of the Group's total amount of purchases. None of the Directors, their respective associates or shareholders holding more than 5% of the Group's issued share capital held any interest in any of the Group's five largest raw materials suppliers during the Track Record Period.

For its sourcing of raw materials, the Group generally receives credit terms from its suppliers. Due to the Group's long term relationships with its suppliers, with respect to the principal raw materials, the Group generally receives credit periods of between 20 and 30 days from its suppliers. The payment terms for the Group's purchases with its suppliers vary from each other and payments are mainly made through bank transfer or issuing banks bills. The Group has not experienced any significant difficulties in sourcing raw materials. Given that the Group has maintained long-term and stable relationships with its major suppliers, and the Group usually sources the same type of raw material from multiple suppliers, the Group does not foresee any major problems in sourcing raw materials required for production in the near future. For new kinds of polymers such as TPU and PVDF etc to be used for planned production of new types of Reinforced Materials, the Group does not expect any significant difficulties in sourcing such raw materials as there has already been an established base of existing domestic and international suppliers. In addition, the Group has also received preliminary quotations from such potential suppliers as part of its planning and evaluation work for launching the new products.

The Company has not entered into any hedging arrangement to mitigate the raw materials price risk and the Directors consider it is not necessary. Instead, the Group would purchase relatively larger amount of raw materials as reserve for its production needs during periods of raw material price trough.

### **INVENTORY CONTROL, LOGISTICS AND WAREHOUSE**

The operation flow of the Group is managed through the ERP system, which was implemented by the Group in 2008. All major business processes such as sales, production planning, procurement, production, quality control, inventory and warehouse management are now supported by the ERP System. Purchase orders, production plans and the related materials lists (which set out the up-to-date production materials requirements of the relevant products) were tracked in the ERP system.

## **1. Inventory control of raw materials**

Production of the Group's products, especially Reinforced Materials and End Products, is normally scheduled based on the orders received. The purchases of raw materials required for each order is properly managed, mainly depending on the consumption amount in the previous years the safety buffer level of storage and the quantity required by the orders. The production management team arranges reasonable production timetable according to the delivery schedules and specifications of products provided in the orders. To meet the delivery schedule, the production orders are properly prioritized so as to enhance production efficiency.

## **2. Inventory control of finished goods**

According to the Group's quality control system, all finished goods must pass the tests conducted by its quality control/quality inspection team before delivering to the warehouses. As for the products delivery, all finished goods can only be delivered to customers after obtaining the delivery orders from the sales centre and also the acknowledgement receipt of payments by the customers from the finance department. All movements in finished goods must strictly comply with the first-in-first-out principle. Production management team will determine the safety buffer level of storage according to the historical sales volume of finished goods.

The Group has established a policy to manage the stock-taking process and discrepancies reporting. The purposes of the Group's stock-take policy are (i) to safeguard the existence and safety of its products stored in its warehouses; and (ii) to resolve any discrepancy discovered during the stock-taking process.

In the event that discrepancies are found during or after the stock-taking process, an analysis report and proposal for treatment of discrepancies will be submitted to the Group's management for approval within a prescribed time period.

The Group distributes products either to its warehouses for customers' collection or to its domestic customers by vessel, railway or trucks, and to overseas customers through exports from ports in the PRC. For export sales to overseas customers, the Group adopts standard terms of either FOB or CFR models both of which are normally applied in international trade. Under the FOB model, the Group would arrange the products to be delivered to the shipper designated by the customers. Its responsibility ends and titles of the Group's products are passed when such delivery to the shipper is completed. The Group would not bear the shipment fees, insurance or any loss that may occur during shipping. Under the CFR model however, the Group's responsibility would continue until the products are delivered by shippers to customers' destination. Titles of the products are also not transferred until then. The Group would normally bear the same shipment fees or any loss that may occur during shipping. It should be noted that majority of the Group's contracts adopted FOB model and this put the Group at a much lesser risk position. As a result, depending on the terms of the contract, the transportation and related costs are generally borne by the oversea customers. During the Track Record Period, the Group had not experienced any major incident or delay in product delivery due to transportation which the Group was responsible for.

## **MARKETING**

The Group mainly promotes its products through the following marketing channels for its sale operations, namely (i) through direct sales teams (from headquarters and regional sales representative offices); (ii) independent e-commerce websites; (iii) domestic and international sales exposition and industry trade exhibitions; (iv) seminars and recreational activities; and (v) other promotional activities. The Group does not have any retail store or consignment sale during the Track Record Period.

Due to the different nature and geographical locations of the respective target customers, the Group maintains two separate headquarters sales teams for its Materials (including both Reinforced Materials and Conventional Materials) and End Products, in order to better promote the Group's products. The headquarters sales teams for its Materials (including Reinforced Materials and Conventional Materials) and End Products are placed in Fuzhou and Xiamen, respectively and the regional sales representative offices will be established according to the location of the target customers. As at the Latest Practicable Date, the Group's sales teams comprise 30 and 32 staff for its Materials (including Reinforced Materials and Conventional Materials) and End Products, respectively and the Group's sales and marketing strategies are planned by senior management. The senior sales management team, comprising 6 members, is responsible for formulating strategies and coordinating sales personnel. The senior sales management team is strategically centralized at the Group's headquarters so as to enhance operation efficiency, especially internal communications with the production and research and development teams.

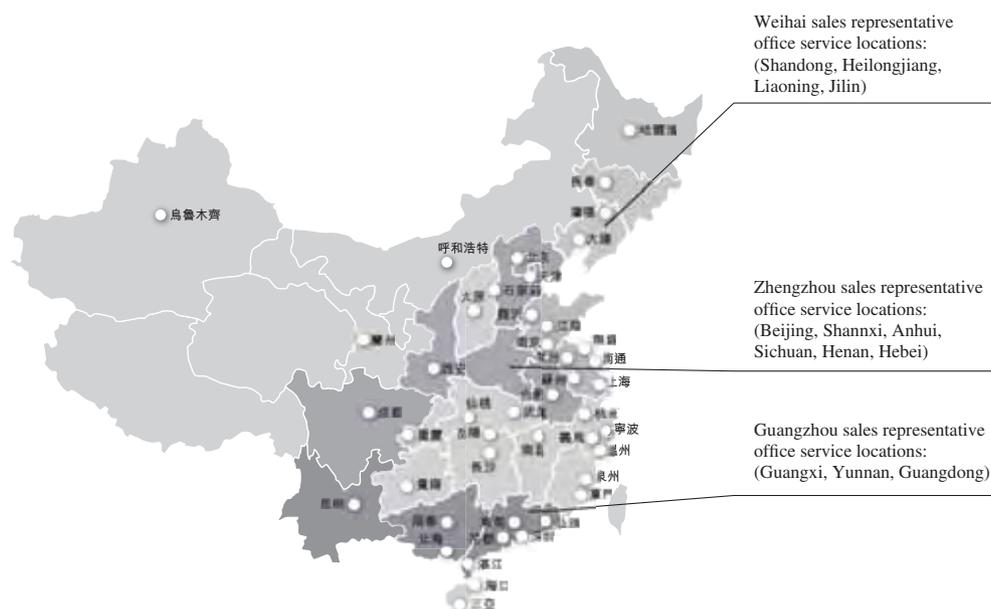
### **Direct Sales Team**

The Group's direct sales team (including sales personnel assigned to designated sales representative offices in different regions) is responsible for identifying business and market opportunities, through referral by existing customers, enquiry by call and emails, direct customer visits, exposition and trade exhibitions, search through internet and magazines. The Group will also deliver the samples of the Group's products to target customers, liaise with regional and local customers on a regular basis and collect local market information to facilitate the Group's marketing and pricing strategies.

In October 2009, the Group has set up its sales representative offices in Guangzhou, Zhengzhou and Weihai. During the Track Record Period, the Group sent its sales staff to these provinces and their surrounding regions to carry out local sales and marketing work.

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The following map shows the location of the Group's sale representative offices and the respective locations in the PRC that these offices serve:



### Independent e-commerce websites

The Group has recognized the importance of online B2B marketplaces (such as Alibaba and Made-in-China websites, etc) for marketing its products to a wider range of potential international and domestic customers and has been utilizing such platform since September 2007. Currently, the Group primarily uses e-commerce websites as a marketing platform, and since the third quarter of 2009, has also commenced test operation of using e-commerce websites as a sales platform. For details, please refer to the subsection headed "Sales and Distribution – other sales channels" in this section.

The Group enters into service contracts with reputable e-commerce website service providers every year. Typical services will include:

- online marketing platform for business-to-business commerce;
- keyword ranking service, so that the Group's products will be listed in priority;
- promotion in exhibitions by publishing information about the Group and its products in magazines issued by the e-commerce website service providers and distributing such magazines to merchandisers in exhibitions or conferences to promote the Group's products and explore new business opportunities;
- providing regular free training programmes to the Group, including skills of e-commerce operations, marketing strategies and negotiation skills, in order to enhance the e-commerce business value; and
- organising regular procurement meetings such as those with Wal-mart and Metro to negotiate with target customers directly.

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As at the Latest Practicable Date, the e-commerce website service providers of the Group include Alibaba, Made-in-China, Google, Baidu, China International Electronic Commerce Center, ECVV and Tradekey.

### **International and domestic sales expositions and industry trade exhibitions**

As part of its sale strategy, the Group also participated actively in international and domestic sales expositions and industry trade exhibitions as a way to solicit direct feedback from buyers and end users customers, to introduce and market new products to potential customers and to solicit direct sales order.

The Group distributes product catalogues, promotes its brand and new products, conducts business negotiations and collects information of potential customers at the exposition and exhibition. All customer information collected at the expositions and exhibitions will be filed and assigned to the relevant marketing officers according to their responsible product types and sales locations for follow-ups. In addition, the Group will have business meetings on a regular basis to discuss various aspects of the business of the Group, including analyzing and evaluating the performance of expositions and exhibitions.

During the Track Record Period, the Group has participated in the following sales expositions and industry trade exhibitions:

Type	Month/Year	Location	Nature
• Shanghai International Advertising Technology & Equipment Exhibition	• 7/2007	• Shanghai	• Advertisement materials and coated fabrics
• International Technical Textiles and Nonwovens Exhibition in the North America	• 10/2007	• Las Vegas, USA	• Coated fabrics, tarpaulin, construction membrane industrial materials and composite materials
• Hong Kong Toys and Games Fair	• 1/2008	• Hong Kong	• Toys and leisure & entertainment product
• Nurenberg International Toy Fair	• 2/2008	• Nurenberg, Germany	• Toys and leisure & entertainment product
• Asia Attractions Expo	• 7/2008	• Macau	• Inflatable toys and inflatable aquatic leisure products
• China (Shanghai) International Inflatable Products Exhibition	• 7/2008	• Shanghai	• Inflatable toys and inflatable aquatic leisure products
• Euro Attraction Show	• 10/2008	• Munich, Germany	• Inflatable toys and inflatable aquatic leisure products
• International Technical Textiles and Nonwovens Exhibition in the PRC	• 10/2008	• Shanghai	• Coated fabrics, industrial materials and functional materials

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Type	Month/Year	Location	Nature
• Attraction Expo of International Association of Amusement Parks and Attractions	• 11/2008	• Orlando, USA	• Inflatable toys and inflatable aquatic leisure products
• International Boat and Water Sports Equipment Expo in Dusseldorf, Germany	• 1/2009	• Dusseldorf, Germany	• Inflatable boats and inflatable aquatic leisure products
• Dubai International Boat Show	• 3/2009	• Dubai	• Inflatable boats and inflatable aquatic leisure products
• East China Fair	• 3/2009	• Shanghai	• Functional materials, inflatable toys, Waders and protective clothing and aquatic sports products
• China International Boat Show	• 4/2009	• Shanghai	• Inflatable boats and inflatable aquatic leisure products
• Canton Fair of Fujian Province	• Every spring/autumn	• Guangzhou	• Functional materials, inflatable toys, waders and protective clothing and aquatic sports products
• China International Occupational Safety & Health Goods Expo	• 5/2009	• Shanghai	• Wader and protective garment material and Waders and protective clothing
• IAAPA Asian Expo 2009	• 6/2009	• Korea	• Inflatable toys and inflatable aquatic leisure products
• Euro Attraction Show	• 10/2009	• Netherlands	• Inflatable toys and inflatable aquatic leisure products

### Seminars and recreational activities

The Group will regularly organize seminars of new Reinforced Materials, sharing the updated industry technology and market information, with the manufacturers, distributors and downstream end users. Through the seminars, the Group will introduce its innovative production technology and products development to the target customers, so as to strengthen the Group's brand recognition and enable the customers to realize the Group's strong capabilities of research and development.

On 25 July 2009, the Group successfully conducted in Fuzhou the First Wader Materials Seminars in the PRC, with active participation by government authorities, industry experts and peers.

Strategically for the promotion of End Products, the Group also organizes a variety of recreational and sports activities and supplies the Group's End Products (such as inflatable toys) to these activities in order to further enhance the popularity of the Group's products. In October 2008, the Group cooperated with Fujian Kid Channel in Quanzhou, Fujian Province on the programme "Cushion Fun Fair for Vacation", wherein the Group supplied large scale inflatable toys to the event organizer, which undertook to arrange advertisement and promotion for the Group's products during the programme. In 2009,

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the Group also organized certain drifting activities, in order to explore more cooperation relationships with the domestic drifting spots. To get familiar with the market information of End Products, the Group also joined China Association of Amusement Parks and Attractions and participates in market research activities organized by the association.

In August 2009, the Group supplied large scale inflatable toys to Fujian TV Sports Channel on “Happy Pingtan” activities, to enhance the presence and popularity of the Group’s products.

### **Other promotional activities**

Sales personnel regularly meet with customers to promote the Group’s new products, as well as to collect customers’ feedback. The Group aims to then adjust the products design whenever necessary to best suit the customers’ needs, for better penetration to the consumer market.

The Group’s marketing efforts also include placing advertisement in industry magazines. Also, the Group has started to imprint and market the Group’s Reinforced Materials under the “Sijia” logo, so as to maximize product promotion. Besides, the Group plans to cooperate with certain end customers by placing the “Sjia” brand tag on their products which use “Sijia” Materials, in order to further enhance brand awareness. This is also to enhance uniqueness and product differentiation from the Group’s competitors.

As at the Latest Practicable Date, the Group’s marketing team comprises 22 marketing personnel for Reinforced Materials and End Products, respectively. The marketing team is solely responsible for coordinating the Group’s sales and marketing activities. Each year, the marketing team formulates the Group’s marketing strategies with reference to factors such as overall market conditions and industry trends, and prepares marketing plans accordingly.

### **SALES AND DISTRIBUTION**

Historically, the Group’s sales were conducted by way of direct sales to its customers. In order to expand the reach of its products, recently, the Group has also adopted other sales channels such as distributors or electronic trading platform.

#### **Direct sales**

After the Group has successfully established contact with the customers via any of the marketing channels, the Group will enter into sales contracts with the customers. Such contracts will specify terms such as price, product specifications, quantity, payment terms and delivery schedule. The sales contracts the Group enters into with its customers are typically short term contracts, each governing only one specific transaction. In some cases, the Group may also enter into framework agreements with the customers without specific commercial terms on a yearly basis to signify the customers’ intention to make purchases from the Group during the relevant period, while the Group will still enter into separate sales orders with the customers each time the customers make specific purchases.

**Other sales channels**

*Distributors*

Starting from the fourth quarter of 2009, the Group has also commenced engaging distributors to help distribute its products. A summary of the key terms of the distribution agreements that the Group has entered into with its distributors is set out below:

Term:	1 year
Responsibilities of the distributor:	<ul style="list-style-type: none"> <li>(1) Distribute the Group's products within a specific designated region</li> <li>(2) Achieve the sales target designated by the Group</li> </ul>
Responsibilities of the Group:	<ul style="list-style-type: none"> <li>(1) Supply its products to the distributor at a specific, pre-agreed price</li> <li>(2) Upon the distributor successfully achieving its sales target, the Group shall provide an annual bonus of a certain percentage of the total sales to the distributor</li> <li>(3) Exchange defective goods for the distributor and be responsible for the relevant transportation cost</li> </ul>
Renewal:	Upon the distributor successfully achieving the sales target, the distributor shall have preference for the distributorship right of the relevant region for the next year

For those distributors which enter into agreements with the Group for the first time, the Company will require payment of 30% of the total contract amount as deposit. For other distributors which have previous business relationships with the Group, no such deposit is required. In either case, the contract amount (or balance thereof where the distributors have placed deposit) is payable before inspection by distributors and delivery by Company and delivery of the products to the distributors. The Group will recognize revenue upon delivering its products to distributors.

Currently, only End Products of waders and protective clothing and inflatable boats are sold through such distributors. Depending on the success of the distributorship business model, the Group may also sell other End Products such as inflatable toys through distributors going forward. As of the Latest Practicable Date, the Group has a total of 6 distributors.

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Going forward, the Group intends to appoint more distributors at different levels geographically. For instance, the Group intends to appoint distributors at municipal levels along watercourse areas such as Guangdong, Fujian, Hubei, Hunan, Zhejiang, Jiangxi and Anhui to promote its waders and protective clothing, and may also appoint distributors in Sichuan, Guangxi, Guizhou and Yunnan to promote its biogas tanks and inflatable boat products. For those distributors with good performance, the Group may grant distribution rights over a wider area going forward. The Group plans to provide training to distributors from time to time in order to equip them with knowledge on the Group's products, business focus, marketing strategies and development plans.

### *Electronic trading platform*

Starting from the third quarter of 2009, the Group has also commenced using electronic trading platform to conduct sales by selling its goods on independent e-commerce websites such as Taobao.com (淘寶網), on a trial run basis, which has generated minimal revenue contribution to the Group up to the Latest Practicable Date. Through these websites, customers would be able to purchase the products which the Group offers for sale on those websites.

Sales transacted through electronic trading platform will be recognized upon delivery of the goods by the Group. The specific time the Group will receive payment from sales concluded on electronic sales platform depends on the terms and conditions of the online trading platform. In some cases, the Group will receive payment immediately upon payment by customers before delivery of goods, while in other cases, payment made by customers will be held on escrow by the trading platform and will only be released to the Group upon customers confirming receipt of goods.

## CUSTOMER SERVICE

In addition to the headquarter sales team in Fuzhou and Xiamen, the Group has three sales representative offices in Guangzhou, Zhengzhou and Weihai. There are altogether nine sales personnel providing services to their respective service locations, to satisfy local customer needs in a timely manner.

Representatives from sales support division (including the staff at the sales representative offices) will be responsible to follow up sales orders, ensure timely delivery of products to customers, follow up on the products performance, conduct regular telephone interviews, perform customer satisfaction surveys and arrange customer meetings.

The Group's sales support division also monitors the overall level of customer satisfaction with the Group's products by maintaining an information database of all customers in their respective geographical coverage and requesting feedback from selected customers. Details of customer feedback are reviewed by the Group's senior management periodically.

## **CUSTOMERS**

The customers of the Group's Reinforced Materials include domestic and overseas manufacturers of End Products across various industries (such as outdoor leisure entertainment, logistics, construction, labour protection, packaging, recreational sports, renewable energy, medical, life-saving, household supplies and advertising), OEM manufacturers of international brands in the PRC, and also include some of the international brands in the respective industries, such as Wibit Sports (a brand of inflatable aquatic leisure products), Sure-Chek (a brand of healthcare fabrics) and Tubbs (a brand of hiking snowshoes). Some Reinforced Materials are sold through trading companies which, as far as the Directors are aware, will be sold to customers that include OEM manufacturers of international brands and international brands in the respective industries of the Group's End Products. No Reinforced Materials are being sold to distributors in the PRC and overseas as at the Latest Practicable Date. The Group's Conventional Materials were principally sold to the raincoat and labour protective clothing manufacturers and trading companies.

As at the Latest Practicable Date, the Group's Materials were sold to over 400 domestic customers (including domestic manufacturers of End Products, OEM manufacturers of international brands and trading companies) as well as over 20 international customers in other countries including the United States, Germany, the United Kingdom, New Zealand, South Korea, Iran, Singapore, Costa Rica, Chile and the Philippines operating in various industries such as outdoor leisure entertainment, logistics, construction, labour protection, packaging, recreational sports, renewable energy, medical, life-saving, household supplies and advertising.

As at the Latest Practicable Date, the Group's End Products are sold to 118 and 42 domestic and international customers respectively including outdoor and waterproof sports and leisure product retailers, wholesalers, and trading companies, drifting clubs and outdoor event organizers and international brands and companies, such as Adcom Motion AG, Wibit Sports, Out of Home Media Group, Smart Digital Australia Pty Ltd, and Ozone s.r.l. During each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, the amount of nil, about RMB7.1 million, RMB9.0 million and RMB56.5 million, representing nil, about 100.0%, 100.0% and 98.4% of the Group's sales amount of End Products were sold under the Group's own brands. The remaining mainly represents sales to international brands. The Group intends to continue to sell its End Products to international brands to expand its scale of operation and strengthen the Group's capabilities through cooperation with these brands.

The Group has maintained long-term relationships with its major customers. The Directors believe that the relationship between the Group and its customers has been and will continue to be good and stable. The Group has 95 customers which have maintained business relationships with the Group for 3 years or more and have purchased from the Group during the Track Record Period. During each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, the Group's sales to these long term customers amounted to about RMB70.7 million, RMB127.3 million, RMB224.2 million and RMB107.6 million, respectively. The Group takes a proactive approach in developing and strengthening its customer relationships by continually improving the quality of its customer service. In addition, the Group's ERP system allows it to better manage the customer information, and gain insight into the needs and behavior of its customers.

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The Group will normally deliver the products to new customers only upon the receipt of payment, while the Group will even request certain new customers to pay deposits. For the customers with long-term relationship with the Group, after reviewing the credit history, the Group will allow the customers the credit terms of 30 days which in some cases may extend to 90 days following the date of delivery of its products.

The Group's customers generally settle payments for the Group's products by bank remittance. For export sales to overseas customers, the Group accepts payment by wire transfer in most cases. Letters of credit are also accepted in some cases.

For each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, about 99.8%, 98.3%, 96.7% and 97.6%, respectively, of the Group's products from its continuing operations were sold domestically in the PRC while the remaining was exported to overseas markets. All the Group's export sales are concluded directly with overseas customers and not through trading agents in the PRC. Whilst the Group will manufacture its products in accordance with the specific requirements from the overseas customers which the Directors understand have already taken into account the requirements of overseas regulations relevant to the overseas customers generally, the overseas customers are responsible for ensuring compliance with overseas regulations and quality control standards. During each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, the Group's domestic sales amounted to about RMB83.9 million, RMB146.2 million, RMB289.8 million and RMB342.7 million, respectively and the Group's overseas sales amounted to about RMB206,000, RMB2.5 million, RMB9.8 million and RMB8.5 million, for the same periods, respectively. For each of the three years ended 31 December 2006, 2007 and 2008 and eight months ended 31 August 2009, the Group's export sales generated from continuing operations represented about 0.2%, 1.7%, 3.3% and 2.4% of the Group's total sales respectively. The Group's sales are mainly denominated in RMB, Euro or US\$. The Group's products being exported during the Track Record Period are mainly Reinforced Materials (comprising tarpaulins, bag materials, inflatable materials, air tightness materials, curtain materials and medical materials), which accounted for about 100.0%, 88.0%, 84.0% and 82.0% of the Group's total export revenue for each of the three years ended 31 December 2006, 2007 and 2008 and for the eight months ended 31 August 2009. Other products that the Group exported include Conventional Materials of PVC-poly and End Products of inflatable products.

For each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, sales to the top five customers of the Group in aggregate accounted for about 45.7%, 45.4%, 45.5% and 27.6% of the Group's total turnover (excluding discontinued operation), respectively. For the same periods, sales to the Group's single largest customer accounted for about 10.7%, 12.8%, 10.0%, and 6.4% of the Group's total turnover (excluding discontinued operation) respectively. The Directors believe that the Group's ability to maintain customer loyalty is vital to its success. The Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, the Group did not experience any significant difficulties in retaining existing customers or procuring new customers.

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None of the Directors, their respective associates, or so far as the Directors are aware, shareholders who own more than 5% of the issued share capital of the Company (immediately upon completion of the Global Offering, but assuming the Over-allotment Option has not been exercised), had any shareholding interest in any of the aforementioned five largest customers of the Group during the Track Record Period.

### PRICING POLICY

The Group takes into account of factors such as the market conditions, cost and brand value when formulating its pricing strategy. Currently, the Group's product price is not subject to any law or regulation and the prices of the Group's products are mainly based on the demand in domestic and overseas markets. Prices of new products are determined by the management with reference to the costs calculated by the technology department. After mass production, marketing team will launch and promote the new products to the market. Product prices will be adjusted according to market response. Prices of the Group's certain products may also be subject to change due to fluctuation in major raw materials cost. The Directors believe that the quality of the Group's certain products are above the industry standards. The Group will consider factors such as brand value, prevailing market conditions, and product quality when determining prices. As a result, the prices of the Group's products are generally higher than that of its competitors.

### COMPETITION

Competition in the industry is mainly based on the product quality and customization. Large scale manufacturers are frequently seen in medium and high end market, where product quality is better and margin is more favorable. However, high end market has many entry barriers that prevent medium scale manufacturers to enter whereas small scale manufacturers only provide low end products with less added value.

Positioned in the high end market, the Directors believe the Group is well recognized in the PRC Reinforced Materials market and can compete with its competitors in reputation, pricing, product features, technology, performance, reliability, quality and customer service.

According to Frost & Sullivan, the PRC Reinforced Materials market is fragmented with the top 5 manufacturers together accounted for about 14.9% of the market in 2008, each with market share close to each other within the range of about 2.2% to 3.3%. The Group ranked number four with about 3.0% market share in terms of turnover in 2008 and, with a two-year CAGR of about 139.3%, the Group had a growth rate higher than that of the other top manufacturers and the industry average from 2006 to 2008. The market share of the Group increased to about 4.5% and was ranked number one in terms of turnover for the eight months ended 31 August 2009. Under the outdoor sub-sector of the PRC Reinforced Materials market, the Group ranked number one and with about 10.4% market share in wader and protective clothing materials, ranked number one and with about 28.1% market share in inflatable materials and ranked number one and with about 10.5% market share in air tightness materials in terms of turnover in 2008. The Group ranked number one and with about 20.4% market share in wader and protective clothing materials, ranked number one and with about 29.0% market share in inflatable materials and ranked number one and with about 18.2% market share in air tightness materials in terms of turnover for the eight months ended 31 August 2009.

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The Group's competitors include domestic players such as Wuzhou Guardtex, Shenda-Kobond and Haining Jinda as well as overseas manufacturers that import Reinforced Materials into China. Even though there is no special license or approval required for engaging in the Reinforced Materials business in China, the barriers of entry to the industry, especially, for the high end market is considered high. According to Frost & Sullivan, significant entry barriers include:

- (i) **Capital Needs:** In the Reinforced Materials industry, imported advanced equipment is important to guarantee high quality but requires a huge capital investment, while most domestic equipment is still behind the customer requirements. To survive in the competition, cost control via achieving economies of scale is key to new entrants. In order to achieve economies of scale, considerable capital investment is needed, which leads to a high barrier for new entrants.
- (ii) **Confronting Market Leaders:** Existing leading manufacturers have set the market structure. New entrants are likely to face barriers set by market leaders such as winning customers over and establish relationships with suppliers.
- (iii) **Talents:** As the industry is growing rapidly and with new technology and applications emerging, customer needs are changing quickly. To keep up with market changes, a strong team of research and development talents is key. However, such professionals are hard to find for new entrants, as the industry in China is still very young, and experienced people are very limited. Moreover, experienced technicians are currently insufficient in the PRC Reinforced Materials industry.
- (iv) **Mastering Technology:** Manufacturing techniques include laminating, coating and a combination of both techniques and formula. New entrants are likely to face difficulties in mastering such production techniques to meet customer needs as these require certain level of professional experience and knowledge. For example, to achieve a good product quality, the formulation, additives, processing temperature, speed and timing, automation level and many other technology/techniques are all very essential. The proficiency in sample test and quality control is critical. Moreover, technology held by existing players is constantly being upgraded, which makes it even harder for new entrants to catch up with existing players.

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As compared to other domestic manufacturers, the Directors believe that they generally do not compete with the Group in respect of brand name, product quality, manufacturing technologies and production capability. However, they do compete with the Group, from time to time, on pricing for certain low to mid end Reinforced Materials such as advertising fabrics, awning fabrics, and cover for truck and train. As such, the Directors believe the Group has certain technological and market share advantages over its domestic competitors demonstrated as follows:

- In producing inflatable materials, the Group has obtained the NFPA701 (“Standard Methods of Fire Tests for Flame Propagation of Textiles and Films”) certification issued by the United States Fire Administration. Products that are not certified by NFPA701 of the United States Fire Administration are not allowed in the U.S. fire-resistant related products market.
- The Group is the leading Reinforced Materials supplier for wader and protective clothing material in the PRC, with the largest market share by turnover in the PRC in 2008 and for the eight months ended 31 August 2009. As compared with its domestic competitors, the Group produces the widest range of wader and protective clothing materials of different functions.
- The Group is also the leading Reinforced Materials supplier for inflatable and air tightness materials, with the largest market share by turnover in the PRC in 2008 and for the eight months ended 31 August 2009.
- The Group is the only manufacturer who manufactures both Reinforced Materials for and End Products of biogas tanks for biogas and sewage related projects in the PRC.
- The Group employs a number of advanced equipment imported from USA, Germany and Japan, including equipment for the production of End Products as well as test apparatus. The Directors believe that the manufacturing equipment designed and owned by the Group are among the most advanced equipment in the PRC Reinforced Materials industry. Due to the high technology contained, the equipment guarantees high products quality as well as high production efficiency for the Group.

As compared with overseas manufacturers, the Directors believe that the Group has competitive advantages which are attributable to its relatively lower labour costs, a well established production base in proximity to suppliers and customers, and an extensive customer base in China. The Directors believe that the Group is capable of providing high quality products up to international standards with affordable price to its customers.

In order to maintain or improve its competitiveness and profitability, the Group plans to continue to focus on higher margin Reinforced Materials products such as biogas tank materials, air tightness materials and inflatable materials; improve existing products or developed new products through innovation and research and development; and lower its unit cost by improving production efficiency and economy of scale.

## **RESEARCH AND DEVELOPMENT**

The Group's research and development efforts focus on production technique engineering, material formulation and equipment engineering, for the purpose of development of new technology and technique and product performance enhancement. During each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, the Group's research and development costs amounted to about RMB5.5 million, RMB7.3 million, RMB13.1 million and RMB21.7 million, respectively. The Group's research and development facilities include a broad range of synthesis and testing equipment, such as computerized colour matching equipment imported from the United State, colorimeter imported from Japan, automated tensile strength testing equipment and roll milling equipment, to enable the Group to develop products that meet the changing needs of its customers.

As at the Latest Practicable Date, the Group's research and development team comprises 29 personnel with diploma and undergraduate qualifications, including two engineers and two assistant engineers, in the relevant disciplines including polymer materials, chemical engineering and electrical technology. In addition, the Group currently collaborates with Tianjin Polytechnic University's (天津工業大學) professor and doctoral tutor, Professor Gu Zhenya (顧振亞) and Fujian Center for Development of Functional Materials Technology of Fuzhou University on product research and development. Please refer to the paragraph headed "Collaboration with established scholars and research institute" below for more details.

The Directors believe that the Group's future success depends in part on its ability to deliver high-quality, advanced and unique products to its target customers. The Group demonstrates its strong technological capacities, in which according to Frost & Sullivan, the Group is the only manufacturer who manufactures both Reinforced Materials for and End Products of biogas tanks for biomass and sewage related projects in the PRC. The Group's research and development team works closely with its personnel in sales, engineering, quality control and technical support as well as its customers to develop products to meet their changing needs. The Group currently plans to develop new Reinforced Materials such as TPU envelop materials, PVDF membrane structure materials and PTFE water-proof, permeable and breathable material, as well as new End Products such as pools and air beds.

The Group's continued focus on research and development has resulted in a series of awards and recognitions. For example in June 2007, its Reinforced Materials was awarded the Gold Award in Cross-Strait Trade Union Innovation Exhibition (海峽兩岸職工創新成果展) and in November 2008, its air tightness material for inflatable boats was recognized as a new product and technology with leading national standard by Fujian Provincial Economics and Trade Commission ("福建省經濟貿易委員會"). In November 2008, the Group was recognized as one of the High Technology Enterprises in Fujian Province and such selection was primarily based on certain criteria, including intellectual property, research and development management and sales growth. Please refer to section headed "Awards and Recognitions" for the full range of achievements that the Group has been recognized for.

**Collaboration with established scholars and research institute**

In May 2008, the Group entered into an exclusive agreement with Professor Zheng Yuying (鄭玉嬰), the dean of Polymer Science and Technology Institute of Fuzhou University (福州大學), to act as an exclusive technical consultant to the Group. Professor Zheng is an expert in polymer material science and technology. Her achievements include three inventions that have successfully received national patents. Professor Zheng also published a number of academic discussion papers including Development in Research of Polymer/Montmorillonite Composite Materials.

In March 2009, the Group entered into an exclusive agreement with Tianjin Polytechnic University's (天津工業大學) professor and doctoral tutor, Professor Gu Zhenya (顧振亞), to act as an exclusive technical consultant to the Group. Professor Gu is an expert and a doctoral tutor in textile science and coloration engineering. She is also a leading scholar of research in textile science and the author of various major publications in the industry in relation to intelligent textile design and application. Professor Gu Zhenya (顧振亞) collaborates with the Group on development of new products and technologies. She has also provided the Group with insights into industry trends, emerging new technologies and transformation of technological knowledge into applications, especially on the development of the Group's new Reinforced Materials, membrane structure material.

A summary of the major terms of cooperation between the Group and each of Professor Zheng Yuying (鄭玉嬰) and Professor Gu Zhenya (顧振亞) is set out below:

	<b>Cooperation with Professor Zheng Yuying (鄭玉嬰)</b>	<b>Cooperation with Professor Gu Zhenya (顧振亞)</b>
Date of agreement:	1 May 2008	20 March 2009
Term of appointment:	Exclusive Technical Consultant to the Group	Exclusive Technical Consultant to the Group
Responsibilities of consultant:	Responsible for the Group's technical research and development, innovation and improvement, management and protection of confidentiality, provision of guidance and consulting services; principally responsible for developing and providing formula and technology for new materials	Responsible for the Group's technical research and development, innovation and improvement, management and protection of confidentiality, provision of guidance and consulting services; principally responsible for developing and providing formula and technology for new materials
Responsibilities of the Group:	N/A	N/A

## BUSINESS

Fees payable to the consultant:	Fees payable to the consultant is divided into two parts:	Fees payable to the consult is divided into two parts:
	<p>(1) A specified fixed fee per annum</p> <p>(2) An incentive fee, the amount of which shall be mutually agreed between the parties prior to production of the product for commercial use, implementing a technology or patent developed under the cooperation. Whether such incentive fee would become payable shall depend on whether the relevant technology or patent could bring economic benefits to the Group, determined by reference to market response for a period of three months after launch of the product. Other than the incentive fee, the consultant shall not seek any other compensation or reward from profit generated by the product</p>	<p>(1) A specified fixed fee per annum</p> <p>(2) An incentive fee, the amount of which shall be mutually agreed between the parties prior to production of the product for commercial use, implementing a technology or patent developed under the cooperation. Whether such incentive fee would become payable shall depend on whether the relevant technology or patent could bring economic benefits to the Group, determined by reference to market response for a period of three months after launch of the product Other than the incentive fee, the consultant shall not seek any other compensation or reward from profit generated by the product</p>
Ownership of intellectual property developed under the cooperation:	Wholly owned by the Group	Wholly owned by the Group
Expiry date:	1 May 2013	20 March 2014

## BUSINESS

In July 2008, the Group and the Fujian Center for Development of Functional Materials Technology of Fuzhou University entered into a formal agreement to jointly establish the Center for Research and Development of High Strength Industrial Polyester Composite Fabric Materials (高強工業聚酯纖維複合材料研發中心). As a partner in this effort, the Fujian Center for Development of Functional Materials Technology, headed by Professor Zheng Yuying (鄭玉嬰), dean of Polymer Science and Technology Institute of Fuzhou University (福州大學), collaborates with the Group on research and development of new products, providing the Group with insights into the latest domestic and international research breakthroughs, and technical training and support for the Group's staff. Since its inception, the Center for Research and Development of High Strength Industrial Polyester Composite Fabrics Materials (高強工業聚酯纖維複合材料研發中心) holds regular meetings and has discussed the improvement of existing products as well as new product developments.

A summary of the major terms with cooperation between the Group and the Fujian Center for Development of Functional Materials Technology of Fuzhou University in relation to the establishment of the Center for Research and Development for High Strength Industrial Polyester Composite Fabric Materials (高強工業聚酯纖維複合材料研發中心) (Referred to below as "The Center") is set out below:

Date of agreement:	7 July 2008
Term:	The Center will engage in research and product development on areas mutually agreed upon by both parties; both parties will jointly provide training, through various forms and methods, to professional talent relevant to the Group's business
Responsibilities of the Fujian Center for Development of Functional Materials Technology of Fuzhou University:	<ol style="list-style-type: none"><li>(1) Provide research staff to participate in research, development and exploration of practical application based on the needs of The Center's research projects</li><li>(2) Provide office, laboratory space and equipment use based on the needs of The Center's research projects</li><li>(3) Organize research teams and lead research activities; manage and supervise technology under The Center's research development</li><li>(4) Follow domestic and international research breakthroughs and new trends to suggest research and development topics</li></ol>

## BUSINESS

- |   |   |
|---|---|
|   | (5) Provide conceptual and technical training to relevant technical staff; mentor and train technical talent for both parties through various forms and methods   |
|   | (6) Manage the organization and participation of research staff   |
| Responsibilities of the Group:                                      | (1) Provide technical staff to participate in research, development and exploration of practical applications based on the needs of The Center's research projects  |
|   | (2) Suggest research and development topics for The Center, or assign responsibility for development of projects  |
|   | (3) Provide support and assistance with regard to data on samples and relevant materials needed for research projects   |
|   | (4) Provide support and assistance with regard to research and laboratory activities that take place in the Group's facilities  |
|   | (5) Provide support and assistance to university students' practical training   |
| Ownership of intellectual property developed under the cooperation: | Technological results and ownership of patents (if any) belong to the Group, while academic results belong to the Fujian Center for Development of Functional Materials Technology of Fuzhou University; specific details to be decided within each project agreement |
| Expiry:   | 7 July 2011. If considered necessary, the parties can extend the term of the agreement by entering into a new agreement upon expiry of the current agreement  |

## INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Group held 45 registered patents (including 28 utility model patents and 17 design patents), 2 registered trademarks in China, 2 registered trademarks in Hong Kong and 2 registered trademarks in five other foreign countries. The Group has applied for registration of 24 patents and registration of 104 trademarks. The Group relies on a combination of patents, copyrights and trade secret laws and confidentiality agreements to protect its intellectual property.

Further details of the Group’s intellectual property rights are set out in the paragraph headed “Intellectual property rights of the Group” in the section headed “Further Information about the Business of the Group” in Appendix VI to this prospectus.

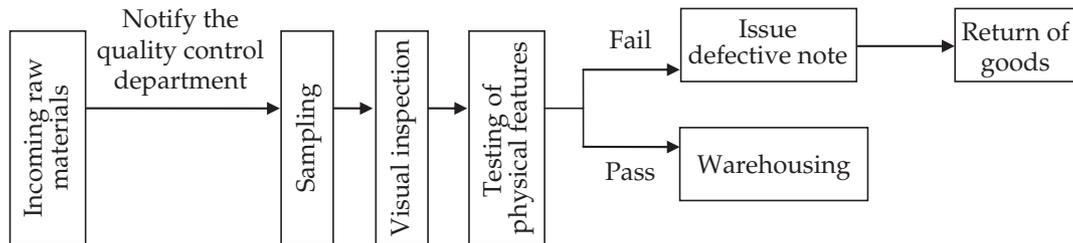
**QUALITY CONTROL**

The Group recognizes the importance of stringent quality controls in the production of the Group’s products and has established quality control department responsible for implementing quality control measures and monitoring quality control procedures. The Group’s quality control department consists of 56 staff as at the Latest Practicable Date and are responsible for the quality control at various production phases from the testing of raw materials to be warehoused, products production to finished products inspection. To the best knowledge of the Directors, no product has been recalled for quality reason.

In April 2006, the Group was accredited with the ISO9001:2000 quality system certificate. These recognitions confirm the Group’s quality control management systems being consistent with national standards.

**Control of raw materials**

The quality control department of the Group carries out inspections when raw materials are delivered to the production factory to ensure that the raw materials meet with the required standards. Any raw materials which are identified as defective are returned immediately to the suppliers.

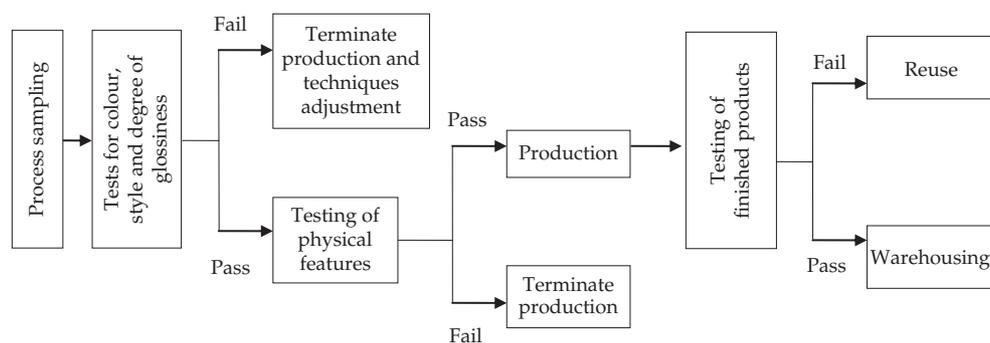


**Production control**

Quality control measures are in place throughout the production process to ensure that the finished products will meet the quality requirements for the Group set by its customers. Quality control staff monitor and inspect the products during the production process to make sure that each of the products of the Group meets with the required standards. The Group adopts a cross-check quality assurance systems and this includes the testing of raw materials and semi-finished products at the production plants as well as by the quality control department at the testing laboratories. If any semi-finished products is identified as defective, the production process will be suspended immediately and the production techniques will be adjusted as appropriate, in order to resolve the quality problem.

### **Finished products inspections**

In addition, quality control staff will inspect the physical features, appearance and packaging of the finished products and assess whether the products meet with the required standards. Only qualified products are allowed to be delivered to the warehouse. The Group will also send product samples for further testing by independent institutes such as SGS, TUV and Intertek, upon request from its customers.



For the manufacturing of End Products, the Group only utilizes its own range of Reinforced Materials, ensuring the quality of raw materials for End Products. The Group also adopts the same abovementioned quality control system for End Products production and finished products inspection.

### **GOVERNMENT GRANTS**

The Group obtained government grants of RMB613,000, RMB124,000, RMB682,000 and RMB720,000 for each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009, respectively. Governmental grants are one-off, non-recurring and vary according to the then prevailing government policies in the PRC.

### **INSURANCE**

The Group maintains insurance against the losses arising from damages to fixed assets, construction projects, production facilities and current assets (such as inventories), due to accidents or natural disasters. In line with the practice in the PRC, the insurance policies maintained by the Group do not cover any indirect loss such as loss of profits caused by any suspension or termination of business. The Group has provided social insurance for its employees, such as retirement insurance, medical insurance and accident insurance, as stipulated under the statutory requirement of the local government. The Directors believe that the existing insurance policies that the Group maintains are sufficient for protecting its properties.

The Group also maintains group insurance for employees to protect employees in case of any workplace accidents.

## BUSINESS

Other than these insurance policies effected by the Group, the Group does not have any product liability insurance to cover any liability arising from any defect in its products. No complaint or claim has been made against the Group, against the Group's products or losses or injuries due to defective products provided by the Group during the Track Record Period. Also, according to the Group's legal advisors as to PRC law, Guantao Law Firm, PRC laws do not require the Group to maintain insurance covering any liability arising from or as a result of any defect in the Group's products. The Directors also believe that all the Group's products meet with the quality standards set by the PRC supervision authorities and are therefore of the view that the insurance coverage for product liability is not necessary.

### ENVIRONMENTAL PROTECTION

The Group's operations are subject to a number of environmental laws and regulations, including the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護管理條例), the Law of the People's Republic of China on the Prevention and Control of the Air Pollution (中華人民共和國大氣污染防治法). The Group has conducted environmental feasibility studies before the commencement of construction of the production plants and ensure the compliance of national environmental requirements regarding the production processes at its production facilities. The Group will conduct necessary environmental feasibility studies and submit to the relevant environmental authorities for approvals in accordance with PRC laws and regulations for any future expansion or establishment of plants or equipment.

The Group's production process will only produce a small amount of industrial wastes. Certain plastic fragment will be leftover during the production process of the final products. The Group will recycle such plastic wastes as raw materials for the sake of cost effectiveness and environmental protection. The Group's production process will not generate any water sewage. The Group checks all raw materials received at its plants to ensure compliance with the Group's safety and quality standards. To the Directors' best knowledge, because all of the Group's raw materials comply with the Group's safety and quality standards, any use of these raw materials, including production processing, storage and disposal, would also comply with applicable PRC environmental regulations such as the Integrated Emission Standard of Air Pollutants (GB16297-1996) (大氣污染物綜合排放標準) ("IESAP"). Since none of the Group's raw materials is toxic, the storage of raw materials will not produce any toxic element or harmful effect on the environment or human health. In addition, since the Group's production process will only produce a small amount of solid industrial waste, which is recyclable and does not have any environmental impact, the disposal process will not produce any toxic element or harmful effect on the environment or human health.

During the processing and heating of PVC, small amounts of harmful gases will be generated at levels in compliance with IESAP. These gases, along with other non-harmful exhaust gases produced during the manufacturing process, are discharged through tall emission pipes at rates in compliance with IESAP. The Group has not received any notice from the environmental bureau in relation to any non-compliance with any environmental laws and regulations during the Track Record Period.

## BUSINESS

The Group's PRC legal advisor has confirmed that Fujian Sijia has complied with the PRC laws and regulations relating to environmental protection without incurring any penalties for violation of the PRC laws and regulations. Xiamen Grandsoo has obtained pre-approval on the environmental protection of its construction and examination and acceptance of its environmental protection facilities by the government authority. However the time thereof does not conform to the relevant laws and regulations. The confirmation issued by Xiamen Environmental Protection Bureau Tong An Branch (廈門市環境保護局同安分局) on 14 September 2009 confirms that Xiamen Grandsoo has complied with laws and regulations relating to environmental protection and will not incur penalties in respect of the relevant laws and regulations. Based on this, the Group's PRC legal advisor has confirmed that the potential risks in incurring any penalties to Xiamen Grandsoo relating to the environmental protection are remote.

The Group's environmental protection expenditures have been mainly devoted to environment monitoring services, environment cleaning and others to comply with the environmental protection laws and regulations and to upgrade the Group's environmental protection systems. For each of the three years ended 31 December 2006, 2007 and 2008 and for the eight months ended 31 August 2009, the Group has spent a total of about RMB8,640, RMB11,860, RMB8,100 and RMB9,660 on environmental protection respectively. For the year ended 31 December 2009, the Group has spent a total of about RMB12,000 in this respect. The Group expects that the cost of compliance with applicable rules and regulations in the year ending 31 December 2010 will be RMB52,000.

As of the Latest Practicable Date, the Group has not been subject to any material proceedings or fines for environmental violations.

### **SOCIAL, HEALTH AND SAFETY**

Fujian Sijia and Xiamen Grandsoo, established in the PRC, are required to comply with PRC Safety Production Rule (中華人民共和國安全生產法). Under such safety law and regulations, the Group should comply with the national or industrial standards for production safety as from time to time prescribed under the applicable PRC law. In particular, the Group is required to establish and from time to time improve the responsibility system for production safety, with definite regulations and operating procedures, and to ensure that the production safety system can be effectively implemented. It should from time to time supervise the implementation of the safety measures, to eliminate any potential safety hazard in a timely manner and to establish emergency plans for work accidents. The Group has adopted various internal policies and is taking protective measures to prevent health and safety hazards. The Group has developed several emergency procedures and contingency plans such as an "industrial accident emergency plan", an "safety emergency plan", a "fire accident plan" and a "special equipment accident emergency plan". In addition, the Group has provided production safety trainings to its employees to ensure that they possess the requisite knowledge of production safety, relevant regulations and operating procedures as well as any particular technique required to carry out the job safely.

The Directors confirm that the Group had not encountered any incidents of violation of safety requirement or non-compliance of relevant laws and regulation in relation to social and health standards.

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The Group confirms and the local government authorities supervising labor and social welfare certify that since the establishment, Fujian Sijia and Xiamen Grandsoo have complied with the relevant laws and regulations relating to labor and social welfare without any penalties due to violation of the relevant laws and regulations relating to labor and social welfare.

### PROPERTY INTERESTS

The Group owns 2 parcels of land, about 65,107 sq.m. and 5,232 sq.m. in Fuzhou ("Fuzhou Land") and Xiamen ("Xiamen Land") respectively (with an aggregate area of about 70,339 sq.m.) and two industrial complexes with gross floor area of about 11,586 sq.m. and about 8,736 sq.m. in Fuzhou Land and Xiamen Land respectively (with an aggregate gross floor area of about 20,322 sq.m.) as production facilities.

#### Fuzhou Land

The Group has legally obtained the state-owned land use rights certificates for 65,107 sq.m. of Fuzhou Land.

Among the buildings the Group occupies on Fuzhou Land, it has not obtained building ownership certificates for various ancillary structures with a total gross floor area of about 586 sq.m., comprising transmission room, electric room, water pumping room, boiler room, crusher room and furnace room. As at the Latest Practicable Date, Fujian Sijia has already submitted the relevant application to the Fuzhou Property Management Bureau to apply for the building ownership certificates of these ancillary structures. According to the confirmation letter issued by the Fuzhou Property Management Bureau on 20 October 2009, it confirmed that Fujian Sijia has submitted all the required documents for the application of the building ownership certificates, fulfilling the statutory requirements and the Fuzhou Property Management Bureau was in the process of approving the application, and there would be no actual obstacles and legal risks in granting the building ownership certificates in respect of such ancillary structures to Fujian Sijia. As advised by the Group's PRC legal advisor, there is no actual legal obstacles for the Group to obtain the relevant building ownership certificate of these ancillary structures. In addition, on 20 October 2009, the Fuzhou Property Management Bureau also confirmed that no penalties may be levied against the Group for occupying these buildings. As advised by the Group's PRC legal advisor, the Group could continue to use the relevant buildings without incurring any penalties by local property management bureau for the lack of building ownership certificate.

The Group also has occupied certain temporary buildings situated on Fuzhou Land (with a total gross floor area of about 1,228 sq. m.), which do not have building ownership certificates, comprising warehouse for storing miscellaneous building materials to be used for Fuzhou Plant phase two. According to the confirmation issued by Fuzhou Urban and Rural Planning Bureau and Fuzhou Construction Bureau on 20 October 2009, the Group was permitted to use such temporary building on Fuzhou Land, provided that such temporary buildings will be demolished before the commencement of construction of Fuzhou Plant phase two development scheduled in November 2010 and Fujian Sijia would not be penalized for its antecedent construction and use of these temporary buildings

should Fujian Sijia demolishes these temporary buildings before the commencement of construction of Fuzhou Plant phase two. As advised by the Group's PRC legal advisor, the Group had obtained the confirmation from relevant governmental authority and will not incur any penalties imposed to the Group in respect of antecedent construction and use of these temporary buildings by local planning and property construction bureaus. The temporary buildings on Fuzhou Land are only utilized as the storage of building materials for the planned construction of Fuzhou Plant phase two, and is not related to the Group's daily operation. The temporary buildings are by all means to be vacated and the building materials to be put on site when the construction of Fuzhou Plant phase two commences. Therefore, the Directors are of the view that the demolition of the temporary buildings before the commencement of construction of Fuzhou Plant phase two would not have any material adverse operational and financial impact to the Group's operation and future expansion plan.

### **Xiamen Land**

The Group is in the process of applying for the land use rights certificates for 5,232 sq.m. of Xiamen Land.

As at the Latest Practicable Date, the Group has not yet obtained the building ownership certificate for Xiamen Plant (with an area of 8,736 sq.m.) on Xiamen Land. Commencing its production of End Products in August 2009, Xiamen Plant is expected to generate significant turnover to the Group, and will be material to the Group's operation and financial performance in future. Xiamen Land is located in the Xiamen Tongan Industrial Zone (廈門市同安工業集中區) ("Tongan Industrial Zone") and it is the policy of the management committee of the Tongan Industrial Zone that the building ownership certificate for all buildings in the Tongan Industrial Zone would be applied for collectively after all occupants of the Tongan Industrial Zone have completed construction and upon construction completion inspection being arranged with and accepted by the relevant authorities. According to the confirmation issued by the Tongan Branch of the Xiamen Land and Building Administration Bureau ("Xiamen Bureau Tongan Branch") on 18 September 2009, Xiamen Grandsoo had submitted all the required documents for the application of the relevant land use rights certificate and building ownership certificates, fulfilling the statutory requirements and the Xiamen Bureau Tongan Branch was in the process of approving the application, and there would be no actual obstacles and legal risks in granting the title certificates in respect of Xiamen Land and Xiamen Plant situated thereon to Xiamen Grandsoo. To the best of the Directors' knowledge, it is currently estimated that the land use rights and building ownership certificates of Xiamen Plant will be granted to Xiamen Grandsoo by the end of 2011 and that Xiamen Grandsoo is permitted to use the properties situated on Xiamen Land without incurring any penalties pending grant of formal land and building ownership certificate of Xiamen Land and Xiamen Plant. Guantao Law Firm, the Group's PRC legal advisors, confirmed that Xiamen Bureau Tongan Branch is the competent authority to give such confirmation.

Xiamen Grandsoo submitted the application to obtain the relevant land use right and building ownership certificate on 3 August 2009. According to the written statement issued by Management Committee of Xiamen Tongan Industrial Zone (the "Committee") on 9 December 2009, the Committee plans to deal with applications for land use right

certificates and building ownership certificates collectively for all enterprises situated in the Tongan Industrial Zone upon completion of their construction and of various examination and acceptance by authorities. Currently to the best knowledge of the Directors, 88 enterprises have completed the construction of the plants and have been examined and accepted by authorities, while 25 enterprises have not completed so. The Committee estimated that the construction, examination and acceptance of all plants in the industrial zone will be completed by June 2010 and the land use rights and building ownership certificates of Xiamen Grandsoo will be obtained by the end of 2011. Guantao Law Firm, the Group's PRC legal advisor has confirmed with Xiamen Bureau Tongan Branch through telephone interview that the bureau agrees with the Committee's plan to deal with titles applications collectively when all occupants complete construction and have the construction inspected and accepted by authority and the Group will not be forced to vacate from the properties during the interim period. The Committee is the PRC government authority who is responsible for overall administrative management of the industrial zone. The major responsibilities of the Committee include the formulation and implementation of the development plan of the Tongan Industrial Zone, to introduction of investment into the Tongan Industrial Zone, the management and supervision of project constructions within the Tongan Industrial Zone, construction and management of public utilities in the Tongan Industrial Zone, supervision the operations of enterprises in the Tongan Industrial Zone and then provide other administrative services to enterprises situated in the Tongan Industrial Zone. There is no actual legal obstacle for Xiamen Grandsoo to obtain the same.

In accordance with the legal opinion of the Group's PRC legal advisor, Xiamen Grandsoo had fulfilled all legal requirements for obtaining the land use right certificate of Xiamen Land and building ownership certificate of Xiamen Plant constructed thereon, there would be no actual legal obstacles for Xiamen Grandsoo to obtain the same.

The Controlling Shareholders have agreed to provide an indemnity in favour of the Group for any loss incurred in relation to title defects of the Group's properties in Fuzhou and Xiamen. In the extremely unlikely event that Xiamen Plant is subject to forced removal, the Group can adopt various expedient measures without difficulties, including relocation of all End Product production equipment to Fuzhou Plant, or renting new factory premises in the vicinity of the existing Xiamen Plant. The Group would be able to implement such measures and resume normal production in less than 15 days with no material operational or financial impact to the Group. Based on the above, the Directors are of the view that the pending title and building ownership certificates in respect of Xiamen Land, Fujian Sijia's certain ancillary structures and temporary buildings will not have any material financial or operational impact on the Group.

#### **Property interests rented and occupied by the Group**

As at the Latest Practicable Date, the Group leased a total gross floor area of about 295 square meters for office purpose in areas including Hong Kong, Zhengzhou, Guangzhou and Weihai. Such properties are leased from Independent Third Parties and the Group's Hong Kong and PRC legal advisor confirmed that the Group has entered into valid lease agreements with lessors for all leased properties.