

## FINANCIAL INFORMATION

*You should read the following discussion and analysis in conjunction with the Group's combined financial information set forth in the Accountants' Report included as Appendix I to this Prospectus, and the Group's selected historical combined financial information and operating data and the notes thereto included elsewhere in this Prospectus. The Group's combined financial information has been prepared in accordance with HKFRS.*

*The following discussion and analysis contains certain forward-looking statements that reflect the Group's current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of the Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Directors believe are appropriate under the circumstances. However, whether actual outcome and developments will meet the Group's expectations and predictions depend on a number of risks and uncertainties over which the Group does not have control. See "Risk Factors" and "Forward-looking Statements".*

*Unless otherwise indicated, all financial data, whether presented on a combined basis or by segment, is presented net of inter-segment transactions (i.e., inter-segment and other intercompany transactions have been eliminated).*

*Unless otherwise specified, translation of RMB into HK\$ in the "Financial Information" section are based on the exchange rate set out below (for the purpose of illustration only):*

<i>For the year ended 31 December 2006:</i>	<i>RMB1.00: HK\$0.9755</i>
<i>For the year ended 31 December 2007:</i>	<i>RMB1.00: HK\$1.0273</i>
<i>For the year ended 31 December 2008:</i>	<i>RMB1.00: HK\$1.1225</i>
<i>For the eight months ended 31 August 2009:</i>	<i>RMB1.00: HK\$1.1363</i>

*No representation is made that any amounts in RMB and HK\$ can be or could have been converted at the relevant dates at the above exchange rate or any other rates at all.*

## 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").

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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, 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.

According to 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.

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. For each 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.

Total revenue of the Group (excluding discontinued operations) grew from about RMB84.1 million in 2006 to about RMB299.7 million in 2008 while profit attributable to equity holders of the Company grew from about RMB15.7 million in 2006 to about RMB61.3 million in 2008. Profit attributable to equity holders of the Company from continuing operations amounted to about RMB6.9 million (HK\$6.7 million), RMB24.4 million (HK\$25.0 million), RMB60.0 million (HK\$67.3 million) and RMB100.7 million (HK\$114.4 million) for each of the three years ended 31 December 2006, 2007 and 2008 and for the eight months ended 31 August 2009, respectively, while profit attributable to equity holders of the Company from the discontinued operation amounted to about RMB8.8 million (HK\$8.6 million), RMB12.4 million (HK\$12.8 million), RMB1.3 million (HK\$1.5 million) and nil respectively for the same periods.

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### TRADING RECORD

#### Summary of results of the continuing operations of the Group

The table below sets forth a summary of the combined results of the continuing operations of the Group for the Track Record Period on the assumption that the current structure of the Group had been in existence throughout the period under review. It should be read in conjunction with the Accountants' Report set forth in Appendix I to this prospectus.

	Year ended 31 December			Eight months ended 31 August	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
<b>CONTINUING OPERATIONS</b>					
REVENUE	84,132	148,715	299,644	202,962	351,137
Cost of sales	<u>(62,831)</u>	<u>(102,718)</u>	<u>(180,480)</u>	<u>(114,016)</u>	<u>(200,814)</u>
Gross profit	21,301	45,997	119,164	88,946	150,323
Other income and gains	816	348	3,308	2,361	1,318
Selling and distribution costs	(1,087)	(1,660)	(4,317)	(2,238)	(2,529)
Administrative expenses	(9,765)	(13,512)	(20,959)	(15,392)	(26,098)
Other expenses	(282)	(718)	(485)	(457)	(328)
Finance costs	<u>(415)</u>	<u>(758)</u>	<u>(1,951)</u>	<u>(1,290)</u>	<u>(1,529)</u>
PROFIT BEFORE TAX	10,568	29,697	94,760	71,930	121,157
Tax	<u>(1,605)</u>	<u>(3,568)</u>	<u>(15,313)</u>	<u>(10,034)</u>	<u>(20,482)</u>
PROFIT FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS	<u>8,963</u>	<u>26,129</u>	<u>79,447</u>	<u>61,896</u>	<u>100,675</u>

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### Summary of results of the discontinued operations

Investors should note that the discontinued operation, namely the raincoat and general protective clothing business, will not form part of the Group. The results of the discontinued operation during the Track Record Period set out below are extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus:

	Year ended 31 December			Eight months ended 31 August	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Revenue	89,694	100,481	21,585	21,585	-
Cost of sales	(73,923)	(83,123)	(19,160)	(19,160)	-
Expenses	<u>(2,226)</u>	<u>(1,916)</u>	<u>(442)</u>	<u>(442)</u>	<u>-</u>
Profit before tax from the discontinued operation	13,545	15,442	1,983	1,983	-
Tax:					
Related to pre-tax profit	<u>(1,624)</u>	<u>(2,187)</u>	<u>(253)</u>	<u>(253)</u>	<u>-</u>
Profit for the year/period from the discontinued operation	<u>11,921</u>	<u>13,255</u>	<u>1,730</u>	<u>1,730</u>	<u>-</u>

### BASIS OF PRESENTATION

The Company was incorporated on 7 October 2009 as an exempted company with limited liability under the Cayman Companies Law in preparation for a listing of the Shares. As a result of the Corporate Reorganization, the Company became the holding company of all its subsidiaries.

As the Company and its subsidiaries (including Hong Kong Sijia and Xiamen Grandsoo) were under continuous common control by Mr. Lin for the Track Record Period, the financial information was prepared on the basis as if the Company had been the holding company of the Group from the beginning of the Track Record Period. The combined statements of income, combined statements of financial position and combined statements of changes in equity of the Group for the Track Record Period include the financial information of the companies comprising the Group as a result of the Corporate Reorganization as if the current group structure had been in existence throughout the Track Record Period. Please refer to note 2 of Section II of the Accountants' Report, "History, Reorganization and Group Structure" section and Appendix VI "Statutory and General Information" to this prospectus for further description of the basis on which the Directors have prepared the Group's financial information. The Group's combined financial information as of and for each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009 were audited by Ernst & Young, Certified Public Accountants, Hong Kong. The Group's combined financial information

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was prepared in accordance with HKFRSs, (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by HKICPA, accounting principles generally accepted in Hong Kong. The combined financial information as of and for the eight months ended 31 August 2008 has been derived from the unaudited combined financial information, which was prepared on the same basis as the audited combined financial information.

### DISCONTINUED OPERATION

Discontinued operation represented the raincoat and general protective clothing operation of Fujian Sijia, which the Group has discontinued since May 2008, with a view to focusing on delivering Reinforced Materials. The raincoat and general protective clothing business was a separately identifiable and managed business division of the Group under Fujian Sijia. In this connection, the raincoat and general protective clothing business was operated under separate management, which was recorded under separate books and records from the continuing operations. The financial results, assets and liabilities of the raincoat and general protective clothing business were separated from the continuing operations of the Group. As at 31 December 2006 and 2007, the net assets of the discontinued operation amounted to about RMB12.6 million and RMB6.7 million, respectively, while the net profits from the discontinued operation for each of the two years ended 31 December 2006 and 2007 and for the year ended 31 December 2008 (before the disposal of the discontinued operation by the Group) amounted to about RMB11.9 million, RMB13.3 million and RMB1.7 million, respectively. The decrease in net assets of the discontinued operation in 2007 from 2006 was primarily due to the combined effects of (i) net profits of the discontinued operation of about RMB13.3 million; and (ii) the amount of about RMB19.2 million of cash generated from the discontinued operation which was deployed and used for Fujian Sijia’s continuing operations. For details of the financial information regarding the discontinued operation, please refer to note 13 of the Accountants’ Report set out in Appendix I in this Prospectus.

### SIGNIFICANT FACTORS AFFECTING THE GROUP’S RESULTS OF OPERATIONS

The Group’s financial condition and results of operations have been and will continue to be affected by a number of factors, including those set out below.

#### **Product mix and product margins**

The mix of products that the Group sells affects its results of operations such as its gross profit margins since different products have different profitability. Profitability would also be affected by the number and type of new products launched, including additional cost (if any) incurred to develop specific techniques and formulae, its pricing strategy for specific types of target customers and customer demand. As a result of focusing on the sale of Reinforced Materials and End Products in recent years, revenue contribution from Reinforced Materials increased from about 16.7% in 2006 to about 51.9% in 2008 and about 64.0% for the eight months ended 31 August 2009 and revenue contribution from End Products increased from nil in 2006 to about 2.8% in 2008 and 16.4% for the eight months ended 31 August 2009. Due to higher margins for Reinforced Materials and End Products, the Group’s gross profit margins has also increased from about 25.3% in 2006 to about 39.8% in 2008 and 42.8% for the eight months ended 31 August 2009. The Group’s gross profit margin will be adversely affected if the percentage contribution from Reinforced Materials and End Products decrease, or if their profit

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margins decrease. The ability of the Group to maintain, and increase, its margins depends on the intensity of the competition, market supply and demand, product quality, the costs of raw materials and the product price of its competitors. The Group's results also depends on its ability to market its products, develop new products with improves characteristic and to meet the requirements of end users.

### **Growth in Reinforced Materials market in China**

According to Frost & Sullivan, due to the large number of downstream applications and growing domestic demand, the total manufacturing revenue of Reinforced Materials in China has been steadily growing, having reached about RMB5.6 billion in 2008 from about RMB3.7 billion in 2006, representing a CAGR of about 22.1%. Reinforced Materials industry in China remained in the early growth stage in 2008, is anticipated to keep increasing and targeted to reach about RMB21.5 billion in 2014 from about RMB5.6 billion in 2008, representing a CAGR of about 25.3%. The Directors believe that such growing demand for Reinforced Materials has directly contributed to the growth in revenue of the Group's Reinforced Materials and expect that such growth potential for the industry will generate significant business opportunities for the Group in the next few years. There is however no assurance that such growth will materialize in the future. For further details on the Reinforced Materials market in China, please refer to the "Industry Overview" section in this prospectus.

### **Growth in downstream end-user product market in China**

Reinforced Materials are widely adopted in a large number of applications, seen in various industries, including outdoor, logistics, construction, renewable energy, flexible sporting floor, and so on. With the economic development in China, downstream product markets are experiencing a fast growth. According to Frost & Sullivan, total downstream end-user products manufacturing revenue in China reached about RMB22.5 billion in 2008 and is forecasted to be about RMB94.2 billion in 2014, with an estimated CAGR of about 27.0%. The substantial growth of in the size of downstream end-user product market in China in the eight months ended 31 August 2009 has also contributed significantly to the growth in the Group's revenue during that period. The Directors expect that such industry growth potential will generate significant business opportunities for the Group in the next few years. There is however no assurance that such growth will materialize in the future. For further details on the downstream product market in China, please refer to the "Industry Overview" section in this prospectus.

### **Production capacity**

The Group's results will be affected by the ability of its production volume and capacity to meet customer demand. The production volume of the Reinforced Materials is constrained by the Group's calendering, coating and laminating capability.

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The Fuzhou Plant commenced production in August 2003 and is principally engaged in the production of Reinforced Materials. Its production capacity as of and production volume for each of the three years ended 31 December 2006, 2007 and 2008 and for the eight months ended 31 August 2009 are set out below:

	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 PVC (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 toy (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. The production capacity for the calender process of polymer film will vary 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, for better 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 either one specific type of products (among polymer films, polymer coated PVC 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 increased the 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 also 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.
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.



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10. As disclosed in the paragraph headed "Expand production capacity" in the "Business" section, 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 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.

The Group continued to expand its production facilities during the Track Record Period. For the lamination production lines, through technological improvement to the production equipment and technique, the production capacity increased from about 3.3 million meters in 2006 to about 5 million meters in 2007, allowing the Group to increase its revenue for Reinforced Materials from about RMB29.1 million in 2006 to about RMB47.3 million in 2007. In July 2007 and December 2007, the Group added one lamination production line respectively, which production capacity increased from about 5 million meters in 2007 to about 15 million meters in 2008, contributing to the increase in the Group's revenue from Reinforced Materials from about RMB47.3 million in 2007 to about RMB166.7 million in 2008.

In August 2009, the Group has completed construction of and commenced production at the Xiamen Plant (except large scale inflatable toys). This new production facility occupied a parcel of land with an area of 5,232 square meters, with a construction area of 8,736 square meters and is principally engaged in the production of End Products. The Directors expect Xiamen Plant to contribute significantly to the future revenue growth of End Products.

Therefore, the Group's future growth also depends on its ability to continue to expand the production capacity and to enhance production efficiency. The Group plans to apply a significant portion of the proceeds from the Global Offering towards the development of Fuzhou Plant phase two to further expand the manufacturing facilities.

### **Raw material prices**

Raw materials is the largest component of the Group's cost of sales during the Track Record Period. The principal raw materials used in the Group's products are polymer, additives such as DOP, and fabrics. Accordingly, changes in the availability and price of such raw materials could have a significant impact on the Group's cost of sales and financial results. The Group primarily purchased polymer, fabrics and DOP in the PRC, where the prices of such raw materials have historically fluctuated according to the market conditions.

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### Taxation

The Group's future profits will be affected by changes in tax rates, particularly the applicable tax rates in the PRC as the Group carries out the majority of its businesses and derives most of the Group's revenue and profits from the PRC.

Fujian Sijia was granted the preferential corporate income tax rate of 15% by the State Administration of Taxation in Fuzhou, Fujian Province for the three years ending 31 December 2010 due to its status as an "advanced technology enterprise".

Xiamen Grandsoo was exempted from corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. The first deemed profitable year of Xiamen Grandsoo was 2008 due to the implementation of new PRC tax regime. Therefore, Xiamen Grandsoo have been exempted from corporate income tax for the years ended 31 December 2008 and 2009, respectively, and will enjoy a 50% tax reduction for the three years ending 31 December 2010, 2011 and 2012.

There can be no assurance that the current favorable tax policies available to us will not be withdrawn or revoked by the PRC government or become less favorable.

### CRITICAL ACCOUNTING POLICIES

The preparation of financial information in conformity with HKFRS requires us to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by us in the application of HKFRS that have a significant effect on the financial information and estimates with a significant risk of material adjustment in the next year are discussed in the Group's combined financial statements in the Accountants' Report set out in Appendix I to this prospectus.

The accounting policies set out below have been applied consistently to all periods presented in the financial information.

### Revenue recognition

The Group recognizes its revenue when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

### **Impairment of non-financial assets other than goodwill**

The Group reviews its intangible assets and where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

The Group assesses each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

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Depreciation of the property, plant and equipment is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Plant and machinery	9% to 18%
Leasehold improvement	30%
Office equipment	18%
Motor vehicles	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each reporting date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### **Research and development costs**

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### **Income tax**

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realized.

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### Impairment of trade and other receivables

Impairment of trade and other receivables is made based on ongoing assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade and other receivables and impairment loss in the period in which such estimate has been changed.

### DESCRIPTION OF SELECTED COMBINED STATEMENTS OF INCOME LINE ITEMS OF THE CONTINUING OPERATIONS

#### Revenue

During the Track Record Period, the Group's revenue was primarily generated from the production and sales of (i) Reinforced Materials; (ii) Conventional Materials; (iii) End Products; and (iv) raincoats and general protective clothing. The Group disposed its raincoat and general protective clothing business on 31 May 2008.

The following table sets out the Group's revenue broken down by business segment for the Track Record Period and the eight months ended 31 August 2008:

	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	%
Continuing Operations										
- Reinforced Materials	29,110	16.7	47,287	19.0	166,660	51.9	104,542	46.6	224,870	64.0
- Conventional Materials	55,022	31.7	94,332	37.9	123,976	38.6	89,554	39.9	68,859	19.6
- End Products	-	-	7,096	2.8	9,008	2.8	8,866	3.9	57,408	16.4
Revenue from continuing operations	84,132	48.4	148,715	59.7	299,644	93.3	202,962	90.4	351,137	100.0
Discontinued operation										
- Raincoats and general protective clothing	89,694	51.6	100,481	40.3	21,585	6.7	21,585	9.6	-	-
<b>Total revenue</b>	<b>173,826</b>	<b>100.0</b>	<b>249,196</b>	<b>100.0</b>	<b>321,229</b>	<b>100.0</b>	<b>224,547</b>	<b>100.0</b>	<b>351,137</b>	<b>100.0</b>

Revenue from the continuing operations have experienced substantial growth during the Track Record Period, from about RMB84.1 million in 2006 to about RMB299.7 million in 2008, representing a CAGR of about 88.7%. The growth in sale of Reinforced

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Materials has been the main contributor of such growth despite an increase in contribution from Conventional Materials. Revenue from Reinforced Materials increased from about RMB29.1 million in 2006 to about RMB166.7 million in 2008, representing a CAGR of about 139.3% and accounted for about 34.6%, 31.8%, 55.6% and 64.0% of the total revenue from continuing operations for each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009 respectively. The substantial growth of sales of End Products for the eight months ended 31 August 2009 has also contributed significantly to the growth in the Group's revenue during that period. 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>

Set out below is a sales volume breakdown and average selling price 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	
	Sales Volume	Average selling price	Sales Volume	Average selling price	Sales Volume	Average selling price	Sales Volume	Average selling price	Sales Volume	Average selling price
	(m)	(RMB/m)	(m)	(RMB/m)	(m)	(RMB/m)	(m)	(RMB/m)	(m)	(RMB/m)
Wader and protective garment materials	115,040	12.1	273,140	14.6	4,079,711	9.2	1,220,094	12.7	4,930,517	12.9
Air tightness materials	536,278	12.5	877,896	14.6	1,497,113	16.2	1,120,208	15.7	2,155,932	20.2
Inflatable materials	673,250	13.7	637,183	13.4	3,228,724	21.8	2,092,046	21.0	3,232,251	19.6
Tarpaulin	246,877	13.8	353,705	14.7	528,341	15.6	435,191	16.2	1,019,016	12.2
Bag materials	802,980	10.5	1,256,707	13.3	2,124,153	12.5	1,673,085	12.2	1,766,429	13.3
Medical materials	-	-	-	-	-	-	-	-	932,528	6.0
Biogas tank materials	-	-	-	-	-	-	-	-	300,649	16.1
Curtain materials	-	-	-	-	-	-	-	-	794,607	10.2
<b>Total</b>	<b>2,374,425</b>		<b>3,398,631</b>		<b>11,458,042</b>		<b>6,540,624</b>		<b>15,131,929</b>	

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Percentage contribution from Conventional Materials to total revenue from the continuing operations has decreased during the Track Record Period, despite absolute increase in revenue from about RMB55.0 million in 2006 to about RMB124.0 million in 2008, as the Group focused more on the sale of Reinforced Materials during the same period owing to higher margin contribution. Sales of Conventional Materials accounted for about 65.4%, 63.4%, 41.4% and 19.6% of the total revenue from continuing operations for each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009 respectively.

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
<b>Total</b>	<b>55,022</b>	<b>100.0</b>	<b>94,332</b>	<b>100.0</b>	<b>123,976</b>	<b>100.0</b>	<b>89,554</b>	<b>100.0</b>	<b>68,859</b>	<b>100.0</b>

Set out below is a sales volume breakdown and average price 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	
	Average		Average		Average		Average		Average	
	selling		selling		selling		selling		selling	
	Sales	price	Sales	price	Sales	price	Sales	price	Sales	price
Volume	(RMB/m)/	Volume	(RMB/m)/	Volume	(RMB/m)/	Volume	(RMB/m)/	Volume	(RMB/m)/	
(m)/	(RMB/	(m)/	(RMB/	(m)/	(RMB/	(m)/	(RMB/	(m)/	(RMB/	
(kilogram)*	kilogram)*	(kilogram)*	kilogram)*	(kilogram)*	kilogram)*	(kilogram)*	kilogram)*	(kilogram)*	kilogram)*	
Polymer film	2,242,293	8.5	1,664,737	9.7	1,469,608	9.8	1,223,189	9.5	2,426,338	7.8
Polymer coated										
polyester	7,598,027	3.4	14,058,253	3.2	23,347,107	3.1	17,303,205	3.1	13,656,273	2.8
Lining	753,546	2.7	1,898,941	2.2	2,021,416	1.9	1,461,967	1.9	826,187	1.9
Polymer coated nylon	107,374	8.8	119,591	8.1	66,092	7.3	62,708	6.5	408,582	8.1
PVC-poly	1,339,045	4.8	2,602,204	5.4	5,374,731	4.9	2,836,143	5.3	1,214,486	4.7
Coated fabrics	183,850	6.1	1,352,591	10.5	917,686	6.1	861,668	6.1	164,413	5.8

\* Except polymer film with measurement unit expressed in "kilogram", the units of other Conventional Materials are expressed in "m".

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Revenue generated from the sales of End Products accounted for nil, about 4.8%, 3.0% and 16.4% of the Groups' total revenue from continuing operations during the Track Record Period respectively. The Group began sale of inflatable toys End Products in 2007. In 2009, the Group further expanded its range of End Products to include inflatable boats, biogas tanks and inflatable aquatic leisure products. The average selling price of inflatable products decreased from about RMB48,603 in 2007 to about RMB41,704 in 2008 and further to RMB588 for the eight months ended 31 August 2009 primarily as a result of changes in product mix in 2009. In 2007 and 2008, for inflatable products, the Group mainly produced and sold large scale inflatable toys, which generally command a higher selling price per unit due to their large size, amount of materials required and more complex design, as compared to the eight months ended 31 August 2009, when the Group also manufactured inflatable toys such as inflatable tents and billboards which are smaller in size and have a lower unit selling price as compared to the large scale inflatable toys in 2007 and 2008, resulting in the significantly low unit selling price in 2009. For the eight months ended 31 August 2009, inflatable products, inflatable boats, biogas tanks and inflatable aquatic leisure products accounted for about 4.1%, 94.4%, 0.8% and 0.7% of the End Products total revenue respectively.

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
	-	-	7,096	100.0	9,008	100.0	8,866	100.0	57,408	100.0

Set out below is a sales volume breakdown and average price 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	
	Average Sales Volume (unit)	Average selling price (RMB/unit)	Average Sales Volume (unit)	Average selling price (RMB/unit)	Average Sales Volume (unit)	Average selling price (RMB/unit)	Average Sales Volume (unit)	Average selling price (RMB/unit)	Average Sales Volume (unit)	Average selling price (RMB/unit)
Inflatable products	-	-	146	48,603	216	41,704	201	44,109	3,989	588
Biogas tanks	-	-	-	-	-	-	-	-	666	668
Inflatable aquatic leisure products	-	-	-	-	-	-	-	-	1,059	367
Inflatable boats	-	-	-	-	-	-	-	-	8,715	6,223



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### Cost of sales

Cost of sales comprised primarily of purchase costs of raw materials and direct overheads including staff costs, depreciation, utilities and others.

The following table sets out a breakdown of the cost of sales from continuing operations of the Group during the Track Record Period:

	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	%
Raw materials	58,826	93.6	95,926	93.4	171,700	95.1	109,655	96.2	193,488	96.4
Labour costs	1,303	2.1	2,644	2.6	2,544	1.4	1,317	1.1	2,348	1.2
Depreciation	974	1.5	1,925	1.9	3,193	1.8	1,571	1.4	2,898	1.4
Utilities	987	1.6	1,277	1.2	1,595	0.9	763	0.7	1,170	0.5
Others	741	1.2	946	0.9	1,448	0.8	710	0.6	910	0.5
<b>Total</b>	<b>62,831</b>	<b>100.0</b>	<b>102,718</b>	<b>100.0</b>	<b>180,480</b>	<b>100.0</b>	<b>114,016</b>	<b>100.0</b>	<b>200,814</b>	<b>100.0</b>

The following table sets out a breakdown of the raw materials during the Track Record Period:

	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	16,045	27.3	20,120	21.0	41,841	24.4	29,753	27.1	36,744	19.0
Additives and others	24,150	41.0	34,760	36.2	95,912	55.8	57,126	52.1	117,556	60.7
Fabrics	18,631	31.7	41,046	42.8	33,947	19.8	22,776	20.8	39,188	20.3
<b>Total</b>	<b>58,826</b>	<b>100.0</b>	<b>95,926</b>	<b>100.0</b>	<b>171,700</b>	<b>100.0</b>	<b>109,655</b>	<b>100.0</b>	<b>193,488</b>	<b>100.0</b>

During the Track Record Period, cost of raw materials was the largest component and accounted for about 93.6%, 93.4%, 95.1% and 96.4% respectively of the total cost of sales from continuing operations. As a percentage of total revenue for continuing operations, cost of sales represented about 74.7%, 69.1%, 60.2% and 57.2% respectively during the Track Record Period. The substantial decrease in fabrics cost as a percentage of raw materials since 2007 was because a higher proportion of fabrics was used for raincoats and therefore a smaller proportion of fabrics was required after the discontinuation of this business.

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### Gross profit and Gross profit margin

Since 2007, the Group has implemented its strategy to focus on Reinforced Materials and End Products and as demonstrated in the table below, during the Track Record Period, the gross profit and gross profit margin (“GPM”) of the Group was on an increasing trend primarily as a result of: (i) increasing revenue contribution from Reinforced Materials which have higher overall gross profit margin as compared to Conventional Materials. Reinforced Materials generally have better pricing ability as compared to Conventional Materials due to its more sophisticated production process and formulae with higher features and performance requirements, which can be applied in a wide range of applications and industries and also through continuing introduction of new ranges and types of Reinforced Materials with improved performance features which were able to command higher unit selling price and gross profit margin. On the other hand, Conventional Materials are principally sold to mass-market raincoat and labour protective clothing manufacturers and trading companies where competition is more intense and pricing strategy is more towards competition-based pricing. Besides increase in overall sales volume for Reinforced Materials during the Track Record Period (sales volume increasing from about 2.4 million m in 2006 to about 3.4 million m in 2007 and to about 11.5 million m in 2008, representing the percentage increase of about 43.1% and 237.1% in 2007 and 2008, respectively, while sales volume increasing from about 6.5 million m for the eight months ended 31 August 2008 to about 15.1 million m for the eight months ended 31 August 2009, representing an increase of about 131.3%), average selling prices for most sub-categories of Reinforced Materials have increased during the Track Record Period as the Group continued to launch and sell new ranges and types of products with improved features and performance requirements and also due to continued customer demand for its Reinforced Materials products. The average unit selling price per m of the Group’s Reinforced Materials amounted to about RMB12.3, RMB13.9, RMB14.5 and RMB14.9 for each of the three years ended 31 December 2006, 2007 and 2008 and for the eight months ended 31 August 2009, respectively, representing the percentage increase of about 13.0% in 2007, 4.3% in 2008 and 2.8% in 2009; and (ii) increasing revenue contribution from End Products, which have higher average gross profit margin as compared to both Reinforced Materials and Conventional Materials. In terms of product mix for End Products, in addition to inflatable toys, the Group has also, in 2009, launched new types of End Products such as inflatable boats, biogas tanks and inflatable aquatic leisure products which increased revenue contribution from End Products business segment in terms of percentage of total revenue of the Group. For more detailed analysis on the yearly fluctuation in gross profit margin, please refer to the below section headed “Financial Information – Results of Operations” in this prospectus.

	For the year ended 31 December						For the eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%
Reinforced Materials	8,630	29.6%	19,521	41.3%	72,999	43.8%	51,985	49.7%	97,101	43.2%
Conventional Materials	12,671	23.0%	21,765	23.1%	38,158	30.8%	28,850	32.2%	10,789	15.7%
End Products	-	-	4,711	66.4%	8,007	88.9%	8,111	91.5%	42,433	73.9%
<b>Total</b>	<b>21,301</b>	<b>25.3%</b>	<b>45,997</b>	<b>30.9%</b>	<b>119,164</b>	<b>39.8%</b>	<b>88,946</b>	<b>43.8%</b>	<b>150,323</b>	<b>42.8%</b>

## FINANCIAL INFORMATION

A breakdown of the gross profit and margin analysis for Reinforced Materials are as follows:

	For the year ended 31 December						For the eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%
Wader and protective garment materials	453	32.4%	1,393	35.0%	9,715	25.9%	7,423	47.8%	26,466	41.7%
Air tightness materials	2,204	33.0%	5,857	45.5%	13,703	56.6%	10,062	57.1%	23,026	52.9%
Inflatable materials	2,568	27.9%	4,120	48.1%	35,496	50.5%	22,994	52.3%	30,613	48.3%
Tarpaulin	1,084	31.8%	1,796	34.5%	3,559	43.1%	3,225	45.7%	3,747	30.1%
Bag materials	2,321	27.6%	6,355	38.0%	10,526	39.8%	8,281	40.7%	6,944	29.5%
Medical materials	-	-	-	-	-	-	-	-	1,053	18.8%
Biogas tank materials	-	-	-	-	-	-	-	-	2,643	54.6%
Curtain materials	-	-	-	-	-	-	-	-	2,609	32.1%
<b>Total</b>	<b>8,630</b>	<b>29.6%</b>	<b>19,521</b>	<b>41.3%</b>	<b>72,999</b>	<b>43.8%</b>	<b>51,985</b>	<b>49.7%</b>	<b>97,101</b>	<b>43.2%</b>

A breakdown of the gross profit and margin analysis for Conventional Materials are as follows:

	For the year ended 31 December						For the eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%
Polymer film	3,794	19.8%	3,370	20.9%	4,359	30.3%	3,467	29.9%	2,970	15.8%
Polymer coated polyester	6,015	23.6%	8,508	18.9%	23,321	31.9%	18,377	33.7%	5,088	13.2%
Lining	716	35.4%	110	2.7%	208	5.4%	318	11.5%	315	20.5%
Polymer coated nylon	267	28.2%	160	16.5%	88	18.2%	72	17.6%	522	15.7%
PVC-poly	1,419	22.3%	4,079	29.0%	7,931	29.8%	4,470	29.8%	1,728	30.4%
Coated fabrics	460	41.2%	5,538	39.0%	2,251	40.4%	2,146	40.6%	166	17.3%
<b>Total</b>	<b>12,671</b>	<b>23.0%</b>	<b>21,765</b>	<b>23.1%</b>	<b>38,158</b>	<b>30.8%</b>	<b>28,850</b>	<b>32.2%</b>	<b>10,789</b>	<b>15.7%</b>

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In general, the changes in profit margins of various categories of Materials are primarily affected by the number and type of new products launched under each category, including additional cost (if any) incurred to develop specific technique and formulae, pricing strategy for specific types of target customers and customer demand.

A breakdown of the gross profit and margin analysis for End Products are as follows:

	For year ended 31 December						For eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%	RMB'000	GPM%
Inflatable products	-	-	4,711	66.4%	8,007	88.9%	8,111	91.5%	526	22.4%
Biogas tanks	-	-	-	-	-	-	-	-	263	59.1%
Inflatable aquatic leisure products	-	-	-	-	-	-	-	-	214	55.0%
Inflatable boats	-	-	-	-	-	-	-	-	41,430	76.4%
	<u>-</u>	<u>-</u>	<u>4,711</u>	<u>66.4%</u>	<u>8,007</u>	<u>88.9%</u>	<u>8,111</u>	<u>91.5%</u>	<u>42,433</u>	<u>73.9%</u>

In general, the changes in profit margins of various categories of End Products are primarily affected by the different types of End Products launched, the type and size of products sold under each category including the sophistication level of each product design and pricing strategy for specific types of target customers and customer demand.

### Other income and gains

Other income and gains consisted primarily of bank interest income, subsidy income from the PRC government, gains on disposals of subsidiaries. The Group received government subsidies for various research and development projects undertaken. In 2008, the group recorded gains on disposal of Fujian Si Tai Di and Smile in Rain amounting to about RMB1.6 million and RMB0.5 million respectively.

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### Selling and distribution costs

Selling and distribution costs consisted primarily of the costs of exhibitions, advertising, transportation, salaries and traveling expenses.

The following table sets out a breakdown of the selling and distribution costs of the Group during the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advertising	–	10	947	584	362
Staff costs	188	202	538	248	566
Depreciation	53	84	126	80	13
Exhibition expenses	101	285	1,032	439	573
Transportation and related expenses	587	864	907	618	342
Travelling expenses	45	70	303	112	196
Others	113	145	464	157	477
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,087	1,660	4,317	2,238	2,529
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

In general, exhibition cost is incurred for participation in industry exhibition and trade fairs. Advertising fees are for the promotion of the Group's products primarily through advertising in industry magazine and e-commerce websites.

### Administrative expenses

Administrative expenses primarily consisted of research and development, salaries and other staff benefits, entertainment, depreciation of equipment and automobiles.

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The following table sets out a breakdown of the administrative expenses of the Group during the Track Record Period:

	For the year ended			For the eight months	
	31 December			ended 31 August	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	1,714	1,929	3,434	1,938	1,416
Legal and professional fee	71	74	322	209	88
Depreciation	153	341	467	212	594
Telecommunication expenses	189	150	230	103	31
Rental expenses	–	78	64	44	39
Vehicle expenses	307	338	380	208	95
Travelling expenses	63	187	114	71	110
Taxation	361	582	622	338	367
Office supplies	114	110	319	154	206
Research and development costs	5,549	7,256	13,125	10,579	21,739
Amortisation of intangible assets	–	–	53	168	122
Refurbishment expenses	691	1,409	–	–	–
Bank charges	207	358	427	311	378
Others	346	700	1,402	1,057	913
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>9,765</b>	<b>13,512</b>	<b>20,959</b>	<b>15,392</b>	<b>26,098</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

As the Group placed significant focus on research and development to refine and diversify its products range and quality, the Group incurred research and development costs throughout the Track Record Period and research and development costs accounted for about 56.8%, 53.7%, 62.6% and 83.3% respectively of the total administrative expenses.

### Finance costs

Finance costs mainly represent interest expenses on bank loans.

### Tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and is exempted from payment of the Cayman Islands income tax. There were no material tax and estate duty liabilities on us arising under the Corporate Reorganization as described in the paragraph headed “Corporate Reorganization” under the section headed “Further Information about the Company” in Appendix VI of this prospectus.

## FINANCIAL INFORMATION

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax is subject to corporate income tax at the rate of 17.5% for the years ended 31 December 2006 and 2007 and 16.5% for the year ended 31 December 2008 and the eight months ended 31 August 2008 and 2009 on the estimated assessable profits arising in Hong Kong during the Track Record Period. No provision of income tax has been made as Hong Kong Sijia had no taxable income during the relevant periods.

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In this connection, Fujian Sijia, Xiamen Grandsoo, Fujian Si Tai Di and Smile in Rain have been subject to CIT at the rate of 25% since 2008.

Fujian Sijia was registered as a foreign-invested enterprise on 25 September 2002. Engaged in manufacturing activities located at the Coastal Special Economic Zone in the PRC, Fujian Sijia is subject to a preferential corporate income tax of 24% for the two years ended 31 December 2007. Fujian Sijia was subject to CIT at a rate of 25% for the year ended 31 December 2008 and the eight months ended 31 August 2008 and 2009. Pursuant to the approval of the tax bureau, Fujian Sijia is exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. The first profitable year of Fujian Sijia was 2004. Therefore, Fujian Sijia was subject to CIT at a reduced rate of 12% for the years ended 31 December 2006 and 2007 and of 12.5% for the year ended 31 December 2008 and the eight months ended 31 August 2008. Pursuant to the approval of the tax bureau, Fujian Sijia being recognized as a "high-tech enterprise", was levied at the reduced tax rate of 15% for the eight months ended 31 August 2009.

Xiamen Grandsoo was registered as a foreign-invested enterprise on 26 May 2006 and subject to CIT at a rate of 15% for the years ended 31 December 2006 and 2007, 18% for the year ended 31 December 2008 and the eight months ended 31 August 2008 and 20% for the eight months ended 31 August 2009. Pursuant to the approval of the tax bureau, Xiamen Grandsoo is exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the New Corporate Income Tax law, a company is still able to enjoy the above mentioned tax holiday within a five-year transitional period from 1 January 2008. The company would be deemed to trigger the tax holiday from 1 January 2008 if it has not yet started to enjoy tax holiday at that time. Since Xiamen Grandsoo was under accumulative loss position and has not yet started to enjoy tax holiday as of 1 January 2008, its tax holiday was deemed to have started in 2008 regardless of whether it makes profit in 2008. Therefore, Xiamen Grandsoo was exempted from CIT for the year ended 31 December 2008 and the eight months ended 31 August 2008 and 2009.

Fujian Si Tai Di was registered as a foreign-invested enterprise on 5 December 2000 and subject to CIT at a rate of 24% for the years ended 31 December 2006 and 2007 and 25% for the year ended 31 December 2008 and the eight months ended 31 August 2008 and 2009.

## FINANCIAL INFORMATION

Smile In Rain was registered as a foreign-invested enterprise on 24 January 2000 and subject to CIT at a rate of 24% for the years ended 31 December 2006 and 2007 and 25% for the year ended 31 December 2008 and the eight months ended 31 August 2008 and 2009.

### RESULTS OF OPERATIONS

#### The Continuing Operations

##### *Eight months ended 31 August 2009 compared with eight months ended 31 August 2008*

##### *Revenue*

Total revenue increased by about 73.0% to about RMB351.1 million for the eight months ended 31 August 2009 from about RMB202.9 million for the eight months ended 31 August 2008. The increase was primarily a result of:

- increase in sale volume across all Reinforced Materials products such as wader and protective garment materials, air tightness materials, inflatable materials, tarpaulin and bag materials with particularly strong revenue growth for wader and protective garment material and air tightness materials at about 308.1% and about 147.2% respectively due to greater demand for such Reinforced Materials and also due to increase in marketing efforts;
- launch of new types of Reinforced Materials in 2009 such as medical material, biogas tank material and curtain material which contributed about RMB5.6 million, RMB4.8 million and RMB8.1 million in revenue respectively for the eight months ended 31 August 2009; and
- launch of new End Products such as inflatable boats which contributed about RMB54.2 million in revenue (representing about 15.4% of the revenue from continuing operations) for the eight months ended 31 August 2009 as compared to nil for the eight months ended 31 August 2008.

The increase in revenue attributed to both Reinforced Materials and End Products was partially offset by decrease in the sales of Conventional Materials from about RMB89.6 million for the eight months ended 31 August 2008 to about RMB68.8 million for the eight months ended 31 August 2009 primarily due to the Group's strategic focus to utilize more of its existing production capacity on the manufacturing of Reinforced Materials to meet increased demand.

##### *Cost of Sales*

Cost of sales increased by about 76.1% to about RMB200.8 million for the eight months ended 31 August 2009 from about RMB114.0 million for the eight months ended 31 August 2008 primarily due to the increase in the volume of raw materials being purchased which was primarily attributable to the increased sale of Reinforced Materials. Raw materials constituted about 96.2% and 96.4% of the total cost of sales for the eight months ended 31 August 2008 and 31 August 2009 respectively.



## FINANCIAL INFORMATION

### *Gross Profit and Gross Profit Margin*

The Group's gross profit increased by about 69.0% to about RMB150.3 million for the eight months ended 31 August 2009 from about RMB88.9 million for the eight months ended 31 August 2008 as a result of the increase in sale of Reinforced Materials and End Products being higher than the corresponding increase in cost of sale during the eight months ended 31 August 2009. The Group's gross profit margin for the eight months ended 31 August 2009 decreased slightly to about 42.8% as compared to about 43.8% for the eight months ended 31 August 2008 primarily due to (i) slight decrease in overall gross profit margin for Reinforced Materials as the Group incurred additional cost of sales for raw materials such as different types of additives being added in the production of polymers as it developed new range of products for its tarpaulin and bag materials. The Group also launched new types of Reinforced Materials during the eight months ended 31 August 2009 such as medical and curtain materials which are priced more competitively as part of the Group's pricing strategy for specific type of target customers; (ii) decrease in the overall gross margin for Conventional Materials from about 32.2% for the eight months ended 31 August 2008 to about 15.7% for the eight months ended 31 August 2009 as the Group decreased the unit selling price of key Conventional Materials such as polymer film, polymer coated polyester and coated fabrics as a result of increased market competition. The Group incurred additional cost for raw materials such as different types of additives which costed higher, as the Group refined its polymer coated polyester and coated fabrics. These resulted in the gross profit margin of polymer film, polymer coated polyester and coated fabrics to decrease from about 29.9%, 33.7% and 40.6% for the eight months ended 31 August 2008 to about 15.8%, 13.2% and 17.3% respectively for the eight months ended 31 August 2009; and (iii) decrease in overall gross profit margin of End Products as the Group launched new types of End Products such as inflatable boats which has a gross profit margin of about 76.4% for the eight months ended 31 August 2009 as compared to average gross profit margin of about 91.5% for inflatable products for the eight months ended 31 August 2008. Inflatable boats was the largest revenue contributor for the End Products with a share of about 94.4% for the eight months ended 31 August 2009.

### *Other Income and Gains*

Other income and gains decreased to about RMB1.3 million for the eight months ended 31 August 2009 from about RMB2.4 million for the eight months ended 31 August 2008, primarily due to an one-off gain on disposal of Fujian Si Tai Di and Smile in Rain, which were subsidiaries engaged in the raincoat and general protective clothing business, in 2008 amounting to about RMB2.2 million.

### *Selling and Distribution Costs*

Selling and distribution costs increased by about 13.0% to about RMB2.5 million for the eight months ended 31 August 2009 from about RMB2.2 million for the eight months ended 31 August 2008 mainly as a result of the increase in (i) staff salaries due to the additional staff performance bonus incurred in 2009; (ii) exhibition expenses as the Group participated in more industry exhibitions and trade fairs to promote its Reinforced Materials and End Products; and (iii) travelling expenses as its marketing staff increased

## FINANCIAL INFORMATION

its on the road marketing efforts to promote its products during the eight months ended 31 August 2009. The above increases in selling and distribution costs were partially offset by the decrease in expenses such as (i) transportation and related expenses as the proportion of the Group's customers who bear their own transportation costs related to delivery of goods increased; and (ii) advertising expenses as the Group incurred additional advertising costs for the eight months ended 31 August 2008 in relation to a children TV program in which the Group collaborated with Fujian kid channel in supplying the Group's End Products. As a percentage of revenue, selling and distribution costs decreased from about 1.1% for the eight months ended 31 August 2008 to about 0.7% for the eight months ended 31 August 2009.

### *Administrative Expenses*

Administrative expenses increased by about 69.6% to about RMB26.1 million for the eight months ended 31 August 2009 from about RMB15.4 million for the eight months ended 31 August 2008. The increase in administrative expenses was primarily attributable to increased research and development expenses incurred to improve quality of existing products and purchase of raw materials for development of new Reinforced Materials such as TPU (Thermoplastic polyurethanes), PVDF-processed membrane structure material and PTFE (Polytetrafluoroethylene) and new range of End Products such as air bed and water pool. As a percentage of administrative expenses, research and development expenses increased from about 68.7% for the eight months ended 31 August 2008 to about 83.3% for the eight months ended 31 August 2009. Staff costs decreased by about 26.8% from about RMB1.94 million for the eight months ended 31 August 2008 to about RMB1.42 million for the eight months ended 31 August 2009. According to the Group's policy, new staff joiners will have an orientation and training period of 3 to 6 months in order to attend training and familiarize themselves with the operation of the related departments. The salaries incurred during such period will be included in administrative expenses. Since the number of new joiners in 2008 was more than in 2009, the salaries in administrative expenses is higher during 2008. As a percentage of revenue, administrative expenses remained fairly stable at about 7.6% for the eight months ended 31 August 2008 as compared to about 7.4% for the eight months ended 31 August 2009.

### *Finance Costs*

Finance costs increased by about 18.5% to about RMB1.5 million for the eight months ended 31 August 2009 from about RMB1.3 million for the eight months ended 31 August 2008 as a result of an increase in interest expense which was in line with the increase in bank borrowings balance.

## FINANCIAL INFORMATION

### *Tax*

The Group's tax expense increased by about 104.1% to about RMB20.5 million for the eight months ended 31 August 2009 from about RMB10.0 million for the eight months ended 31 August 2008 primarily due to an increase in the Group's taxable income as a result of increase in the Group's profit before tax from about RMB71.9 million for the eight months ended 31 August 2008 to about RMB121.2 million for the eight months ended 31 August 2009. The Group's effective tax rates calculated from the tax charged to the combined income statement over the profit before tax were about 13.9% and 16.9% for each of the eight months ended 31 August 2008 and 2009 respectively. The increase in effective tax rate of the eight months ended 31 August 2009 was due to the expiry of certain tax benefits for Fujian Sijia, pursuant to which it was subject to CIT at a rate of about 12.5% for the year 2008 as compared to about 15% for the eight months ended 31 August 2009.

### *Profit for the period*

As a result of the foregoing, the Group's profit for the period increased by about 62.7% to about RMB100.7 million for the eight months ended 31 August 2009 from about RMB61.9 million for the eight months ended 31 August 2008 and its net profit margin decreased slightly to about 28.7% for the eight months ended 31 August 2009 from about 30.5% for the eight months ended 31 August 2008 primarily due to the increase in effective tax rate for the eight months ended 31 August 2009.

### *2008 compared with 2007*

#### *Revenue*

The Group's total revenue increased by about 101.5% to about RMB299.7 million in 2008 from RMB148.7 million in 2007 primarily a result of:

- increase in production capacity such as the one of the production line in calender process of polymer film and laminating process used in the manufacturing of Reinforced Materials, from 8,800 tonnes and 5 million meters in 2007 to 11,000 tonnes and 15 million meters in 2008, respectively;
- increase in revenue across all Reinforced Materials products such as wader and protective garment materials, air tightness materials, inflatable materials, tarpaulin and bag materials with particularly strong revenue growth for wader and protective garment materials and inflatables materials at about 842.6% and about 720.6% respectively due to increased demand from both new and existing customers and the increase in unit price for key products such as air tightness materials and inflatable materials; and
- increase in sale of some Conventional Materials such as polymer coated polyester and PVC-poly, which were mainly used for the manufacturing of raincoats primarily to the acquirer of the Group's raincoat and general protective clothing business, who continued to purchase the Group's Conventional Materials to manufacture its raincoats.

## FINANCIAL INFORMATION

### *Cost of Sales*

Cost of sales increased by about 75.7% to about RMB180.5 million in 2008 from about RMB102.7 million in 2007 primarily due to the increase in the volume of raw materials being purchased which was attributable to the increased sale of Reinforced Materials and Conventional Materials. Raw materials constituted about 93.4% and 95.1% of the total cost of sale for the years ended 31 December 2007 and 2008 respectively.

### *Gross Profit and Gross Profit Margin*

Gross profit increased by about 159.1% to about RMB119.2 million for the year ended 31 December 2008 from about RMB46.0 million for the year ended 31 December 2007 primarily as a result of the increase in sale of Reinforced Materials and End Products higher than the corresponding increase in cost of sale for the year ended 31 December 2008. The Group's gross profit margin in 2008 increased to about 39.8% from about 30.9% in 2007 primarily due to: (i) increase in overall gross profit margin for Reinforced Materials from about 41.3% in 2007 to about 43.8% in 2008 as the Group was able to increase its unit selling price for most of its Reinforced Materials due to increased demand and also because of a drop in cost of key raw materials such as DOP additive. The Group also launched new models of air tightness materials and tarpaulin with improved performance characteristics in 2008, which were able to be priced higher as part of the Group's marketing strategy; and (ii) increase in the overall gross margin for Conventional Materials from about 23.1% in 2007 to about 30.8% in 2008 primarily due to a decrease in cost of raw material such as DOP additive while the unit selling price of key Conventional Materials such as polymer film and polymer coated polyester remained fairly stable. These resulted in the gross profit margin of polymer film and polymer coated polyester to increase from about 20.9% and 18.9% in 2007 to about 30.3% and 31.9% respectively in 2008. For PVC-poly, its unit selling price decreased from about RMB5.4/m in 2007 to about RMB4.9/m in 2008, but the gross profit margin remained fairly stable in 2007 and 2008, as a result of the drop in material costs of DOP in 2008.

### *Other Income and Gains*

Other income and gains increased to about RMB3.3 million in 2008 from about RMB0.3 million in 2007, primarily due to an one-off gain on disposal of subsidiaries (Fujian Si Tai Di and Smile in Rain) in 2008 amounting to about RMB2.2 million.

### *Selling and Distribution Costs*

Selling and distribution costs increased by about 160.1% to about RMB4.3 million in 2008 from about RMB1.7 million in 2007, primarily due to increase in (i) exhibition expenses as the Group participated in more industry exhibitions and trade fairs to promote its Reinforced Materials; (ii) staff salaries due to the increase in marketing staff personnel from 16 as at 31 December 2007 to 37 as at 31 December 2008; and (iii) advertising fees as the Group increased posting of advertisements through the internet to market its products and through collaboration with Fujian kid channel for a televised children program to promote its brand name. As a percentage of revenue, selling and distribution costs increased from about 1.1% for the year ended 31 December 2007 to about 1.4% for the year ended 31 December 2008.

## FINANCIAL INFORMATION

### *Administrative Expenses*

Administrative expenses increased by about 55.1% to about RMB21.0 million in 2008 from about RMB13.5 million in 2007. The increase in administrative expenses was primarily attributable to (i) increased research and development costs incurred to improve quality of existing products, development of new Reinforced Materials such as wader and protective garment materials, air tightness materials and inflatable materials and new range of End Products such as air bed and water pool; and (ii) increased in staff costs as number of staff increased from 55 as at 31 December 2007 to 94 as at 31 December 2008. As a percentage of administrative expenses, research and development expenses increased from about 53.7% for the year ended 31 December 2007 to about 62.6% for the year ended 31 December 2008 and staff costs increased from about 14.3% for the year ended 31 December 2007 to about 16.4% for the year ended 31 December 2008. The Group also incurred non-recurring refurbishment expense of about RMB1.4 million in 2007 for its Fuzhou Plant as compared to nil in 2008. As a percentage of revenue, administrative expenses decreased from about 9.1% for the year ended 31 December 2007 to about 7.0% for the year ended 31 December 2008.

### *Finance Costs*

Finance costs increased by about 157.4% to about RMB2.0 million in 2008 from about RMB0.8 million in 2007 as a result of an increase in interest expense which was in line with the increase in bank borrowings balance.

### *Tax*

The Group's tax expense increased by about 329.2% to about RMB15.3 million in 2008 from about RMB3.6 million in 2007 primarily as a result of an increase in the Group's taxable income due to the increase in the Group's profit before tax from about RMB29.7 million for the year ended 31 December 2007 to about RMB94.8 million for the year ended 31 December 2008. The Group's effective tax rates calculated from the tax charged to the combined income statement over the profit before tax were about 12.0% and about 16.2% for 2007 and 2008 respectively. The increase in effective tax rate from 2007 to 2008 was primarily due to the introduction of the New Corporate Income Tax Law regarding the effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiary.

### *Profit for the year*

As a result of the foregoing, the Group's profit for the year increased by about 204.1% to about RMB79.4 million for the year ended 31 December 2008 from about RMB26.1 million for the year ended 31 December 2007 and its net profit margin increased to about 26.5% in 2008 from about 17.6% in 2007.

## FINANCIAL INFORMATION

### *2007 compared with 2006*

#### *Revenue*

The Group's total revenue increased by about 76.8% to about RMB148.7 million in 2007 from about RMB84.1 million in 2006. The increase was primarily a result of:

- increase in production capacity through installing a new lamination production line in July 2007, primarily used in the manufacturing of Reinforced Materials, from about 3.3 million meters in 2006 to about 5 million meters in 2007;
- increase in sale volume and unit price for Reinforced Materials, in particular as air tightness materials and bag materials which recorded revenue growth of about 92.3% and about 98.4% respectively due to greater customer demand for such Reinforced Materials;
- increase in sale of some Conventional Materials such as polymer coated polyester, PVC-poly and coated fabrics, which were mainly used for the manufacturing of raincoats and general protective and water proof garment due to increase in number of customers; and
- the Group began to sell End Products, namely inflatable toys in 2007 with revenue of about RMB7.1 million, contributing about 4.8% of total revenue in 2007 as compared to nil in 2006.

#### *Cost of Sales*

Cost of sales increased by about 63.5% to about RMB102.7 million in 2007 from about RMB62.8 million in 2006 primarily due to the increase in the volume of raw materials purchased which was attributable to the increased sale of Reinforced Materials. Raw materials constituted about 93.6% and 93.4% of the total cost of sale for the year ended 31 December 2006 and 2007 respectively.

#### *Gross Profit and Gross Profit Margin*

Gross profit increased by about 115.9% to about RMB46.0 million for the year ended 31 December 2007 from about RMB21.3 million for the year ended 31 December 2006 primarily as a result of increase in sale of Reinforced Materials and End Products higher than the corresponding increase in cost of sale for the year ended 31 December 2007. The Group's gross profit margin in 2007 increased to about 30.9% from about 25.3% in 2006 primarily due to increase in overall gross profit margin for Reinforced Materials from about 29.6% in 2006 to about 41.3% in 2007 as the Group was able to increase its unit selling price for most of its Reinforced Materials due to greater demand for its products (including existing and newly developed range of Reinforced Materials products) which outweighed the effect of increase in PVC cost in 2007. This is partially offset by a decrease in gross profit margin of key Conventional Materials such as polymer coated polyester which contributed about 47.6% of the total revenue for Conventional Materials in 2007 as a result of increase in PVC cost in 2007, while unit selling price remaining fairly stable. These resulted in the gross profit margin of polymer coated polyester to decrease from about 23.6% in 2006 to about 18.9% in 2007. The unit selling price of polymer film increased from about RMB8.5/kilogram in 2006 to about RMB9.7/kilogram in 2007, partially offset by the increase in PVC material cost in 2007, resulting in the slightly increase in gross profit margin of about 19.8% in 2006 to about 20.9% in 2007.

## FINANCIAL INFORMATION

### *Other Income and Gains*

Other income and gains decreased to about RMB0.3 million in 2007 from about RMB0.8 million in 2006, primarily due to lesser research subsidy offered by the government in 2007 which was relevant to the Group.

### *Selling and Distribution Costs*

Selling and distribution costs increased by about 52.7% to about RMB1.7 million in 2007 from about RMB1.1 million in 2006, primarily due to increase in (i) exhibition expenses as the Group participated in more industry exhibitions and trade fairs to promote the Group's products; and (ii) transportation fee as a result of increased delivery costs of goods incurred in relation to increased sales. As a percentage of revenue, selling and distribution costs decreased slightly from about 1.3% for the year ended 31 December 2006 to about 1.1% for the year ended 31 December 2007.

### *Administrative Expenses*

Administrative expenses increased by about 38.4% to about RMB13.5 million in 2007 from about RMB9.8 million in 2006. The increase in administrative expenses was primarily attributable to (i) increased research and development costs incurred to improve quality of existing products and development of new Reinforced Materials such as air tightness materials and bag materials; and (ii) increase in refurbishment fee from about RMB0.7 million in 2006 to about RMB1.4 million due to non-recurring refurbishment work performed at the Fuzhou Plant which started in August 2006 and completed in September 2007. As a percentage of administrative expenses, research and development expenses represented about 56.8% for the year ended 31 December 2006 as compared to about 53.7% for the year ended 31 December 2007. As a percentage of revenue, administrative expenses decreased from about 11.6% for the year ended 31 December 2006 to about 9.1% for the year ended 31 December 2007.

### *Finance Costs*

Finance costs increased by about 82.7% from about RMB0.4 million in 2006 to about RMB0.8 million in 2007 as a result of an increase in interest expense which was in line with the increase in bank borrowing balance.

### *Tax*

The Group's tax expense increased by about 122.3% to about RMB3.6 million in 2007 from about RMB1.6 million in 2006 primarily as a result of an increase in the Group's taxable income from the Group's increased in the Group's profit before tax from about RMB10.6 million for the year ended 31 December 2006 to about RMB29.7 million for the year ended 31 December 2007. The Group's effective tax rates calculated from the tax charged to the combined income statement over the profit before tax were about 15.2% and about 12.0% in 2006 and 2007 respectively. The decrease in effective tax rate from 2006 to 2007 was due to a lower percentage of tax losses not recognized in relation to loss-making subsidiaries, Hong Kong Sijia and Xiamen Grandsoo to the Group's profits before tax in 2007.

## FINANCIAL INFORMATION

### *Profit for the year*

As a result of the foregoing, the Group's profit for the year increased by about 191.5% to about RMB26.1 million for the year ended 31 December 2007 from about RMB9.0 million for the year ended 31 December 2006 and its net profit margin increased to about 17.6% in 2007 from about 10.7% in 2006.

### **The Discontinued Operation**

#### *Eight months ended 31 August 2009 compared with eight months ended 31 August 2008*

Revenue for the raincoat and general protective clothing business decreased from about RMB21.6 million for the eight months ended 31 August 2008 to nil for the eight months ended 31 August 2009 due to the completion of the disposal of the raincoat and general protective clothing business in May 2008 as part of the Group's strategic decision to focus on the manufacture and sale of Reinforced Materials. As such, for the eight months ended 31 August 2009, there was no profit attributable to the raincoat and general protective clothing business.

#### *2008 compared with 2007*

Revenue for the raincoat and general protective clothing business decreased by about 78.5% from about RMB100.5 million for the year ended 31 December 2007 to about RMB21.6 million for the year ended 31 December 2008 due to the disposal of the Group's raincoat and general protective clothing business in May 2008.

Cost of sale decreased by about 76.9% from about RMB83.1 million for the year ended 31 December 2007 to about RMB19.2 million for the year ended 31 December 2008, which was in line with the decrease in revenue for the same period.

Profit for the year decreased by about 86.9% from about RMB13.3 million for the year ended 31 December 2007 to about RMB1.7 million for the year ended 31 December 2008, which was in line with the decrease in revenue for the same period.

#### *2007 compared with 2006*

Revenue for the raincoat and general protective clothing business increased by about 12.0% from about RMB89.7 million for the year ended 31 December 2006 to about RMB100.5 million for the year ended 31 December 2007 due to increase in average unit sale price from about RMB14.2 in 2006 to about RMB16.5 in 2007 resulting from new range of raincoat product launched in 2007, despite a slight decrease in the number of units sold.

Cost of sale increased by about 12.4% from about RMB73.9 million for the year ended 31 December 2006 to about RMB83.1 million for the year ended 31 December 2007 primarily due to increase in cost of raw materials purchased.



## FINANCIAL INFORMATION

Profit for the year increased by about 11.2% from about RMB11.9 million for the year ended 31 December 2006 to about RMB13.3 million for the year ended 31 December 2007, primarily due to the increase in unit sale price resulting in slight increase in profit margin and also lower miscellaneous expenses incurred in 2007.

### INDEBTEDNESS

#### Borrowings

The Group uses both short and long term borrowings in the course of operating its business. As at 31 December 2006, 2007 and 2008 and 31 August 2009, the Group had total outstanding bank borrowings of about RMB9.3 million, about RMB15.7 million, about RMB23.4 million and about RMB37.0 million, respectively. The table below sets out the Group's bank borrowings as of the dates indicated.

	Effective interest rate (%)	Maturity	As at 31 December			As at
			2006	2007	2008	31 August 2009
			RMB'000	RMB'000	RMB'000	RMB'000
<b>Current</b>						
Bank loans – secured	5.549-7.245	Within 1 year	9,312	-	-	-
Bank loans – secured	6.696-8.964	Within 1 year	-	11,317	19,000	-
Bank loans – secured	5.346-8.964	Within 1 year	-	-	-	33,000
Current portion of long term bank loans – secured	7.83		-	-	500	500
			<u>9,312</u>	<u>11,317</u>	<u>19,500</u>	<u>33,500</u>
<b>Non-current</b>						
Bank loans – secured	7.83	2007.9.30-2017.9.29	-	4,375	3,875	3,542
			<u>9,312</u>	<u>15,692</u>	<u>23,375</u>	<u>37,042</u>
<b>Repayable:</b>						
Within one year or on demand			9,312	11,317	19,500	33,500
In the second year			-	500	500	500
In the third to fifth years, inclusive			-	1,500	1,500	1,500
Beyond five years			-	2,375	1,875	1,542
			<u>9,312</u>	<u>15,692</u>	<u>23,375</u>	<u>37,042</u>

## FINANCIAL INFORMATION

The Group's bank borrowings are secured by:

- (i) mortgages over the Group's buildings and plant and machinery situated in the PRC with aggregate net book values of RMB20,482,000, RMB25,286,000, RMB16,594,000 and RMB28,273,000 as at 31 December 2006, 2007 and 2008 and 31 August 2009, respectively;
- (ii) mortgages over the Group's leasehold lands situated in the PRC with an aggregate carrying value of RMB4,507,000 as at 31 August 2009; and
- (iii) guarantees by Fujian Shunfan Guarantee Co., Ltd. ("Fujian Shunfan") of RMB27,000,000, RMB45,000,000, RMB45,000,000 and RMB63,000,000 as at 31 December 2006, 2007 and 2008 and 31 August 2009, respectively. At the time of grant of loan by bank in or about 2004, the Group has mortgaged its plant and machinery to provide for security of the bank loan and has agreed to further mortgage its land use right certificate and building ownership certificate as soon as they are issued. The bank loan is renewable annually. In 2005, the land use right certificate and the building ownership certificate of the Group have not been issued and Fujian Shunfan has provided guarantee as additional security for the bank. Upon issue of the land use right certificate of the Group in 2007 and the building ownership certificate of the Group in 2008, both certificates were mortgaged in favour of the bank. On 22 October 2009, the guarantee by Fujian Shunfan was released. The present securities to secure the Group's bank loan were provided by the Group itself (namely mortgage in respect of the Group's land use right certificate, building ownership certificate and plant and machinery of the Group) and provide sufficient level of security for obtaining and maintaining such bank loan. Save as aforesaid, the Group has not encountered any difficulty in obtaining loans from banks. With the existing level of security, the Group does not expect that it will have difficulty in renewing the existing loan facilities or obtaining new bank loan facilities. The Directors confirmed that no similar guarantee arrangement with Fujian Shunfan will be made in future.

Fujian Shunfan is a company incorporated in the PRC and is engaged in the business of provision of guarantee and security to enterprises in the PRC to facilitate them to obtain loans from banks, which is beneficially owned by an Independent Third Party who is also close friend of Mr. Lin, which equity interests were held in the name of and in trust for the said Independent Third Party by (i) Mr. Lin Rongfeng (brother-in-law of Mr. Lin) and (ii) a niece of Mr. Lin (who is also the wife of Mr. Zhang Hongwang) as to 50% each.

It has been the PRC government policy that the provision of guarantee to secure loan facilities for small to medium size PRC enterprises (as well as for new high technology enterprise since 2007) will entitle guarantee companies to apply for subsidies provided by the PRC government.

As a close friend of Mr. Lin and for the reason as mentioned above, Fujian Shunfan has agreed that no fee/consideration would be payable by the Group for the provision of guarantee by Fujian Shunfan.

As at 31 December 2009, being the latest practicable date for determining the Group's indebtedness, the Group had outstanding bank borrowings of about RMB39.0 million. As at 31 December 2009, the Group had banking facilities in the total amount of RMB73 million (secured by the pledge of the Group's property, plant and equipment, land use rights and cash deposits) of which about RMB63.4 million has been utilized.

## FINANCIAL INFORMATION

Save as aforesaid or as otherwise disclosed therein, at the close of business on 31 December 2009, the Group did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that, except as disclosed above, there has been no material change in the indebtedness and contingent liabilities of the Company and its subsidiaries since 31 December 2009.

### Contingent liabilities

As at 31 December 2006, 2007 and 2008 and 31 August 2009, the Group had no significant contingent liabilities.

### CAPITAL EXPENDITURES

#### Capital expenditures during the Track Record Period

The following table sets forth the Group's capital expenditures over the Track Record Period.

	For the year ended 31 December			For the eight months ended 31 August
	2006	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	33,587	16,655	4,084	21,142

### Capital commitments

The following table presents the Group's capital commitments as at the balance sheet dates indicated.

	As at 31 December			As at 31 August
	2006	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for: Plant and machinery	23,822	474	–	–

## FINANCIAL INFORMATION

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

#### Financial resources

The primary uses of cash generated internally and bank loans of the Group are to pay for property, plant and equipment and as working capital of the operation of the Group. Following the Global Offering, the Group expects to fund its foreseeable expenditure with the net proceeds from the Global Offering, the Group's net operating cash inflow and/or bank borrowings.

The following table sets forth the selected cash flow data from the Group's combined statements of cash flows for the periods indicated.

	Year ended 31 December			Eight months ended 31 August	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)				
Net cash inflow from operating activities	29,317	28,429	88,560	32,667	134,592
Net cash outflow from investing activities	(34,370)	(19,678)	(30,839)	(204)	(8,182)
Net cash inflow/(outflow) from financing activities	<u>(7,688)</u>	<u>6,380</u>	<u>(6,397)</u>	<u>22,850</u>	<u>13,667</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(12,741)	15,131	51,324	55,313	140,077
Cash and cash equivalents at beginning of year/period	35,109	22,132	36,664	36,664	87,612
Effect of foreign exchange rate changes, net	<u>(236)</u>	<u>(599)</u>	<u>(376)</u>	<u>(358)</u>	<u>(16)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u><u>22,132</u></u>	<u><u>36,664</u></u>	<u><u>87,612</u></u>	<u><u>91,619</u></u>	<u><u>227,673</u></u>

#### Operating activities

Net cash inflow from operating activities for the eight months ended 31 August 2009 was about RMB134.6 million. This amount was primarily attributable to profit before tax of about RMB121.2 million from continuing operations, an increase in trade and bills payables of about RMB12.5 million as a result of an increase in cost of sales following the growth in sales and an increase in other payables and accruals of about RMB11.8 million due to the increase in the value-added tax payable. This was partially offset by income tax paid of RMB15.6 million and an increase in trade and notes receivables of about RMB6.0 million, which also resulted from a growth in sales.

## FINANCIAL INFORMATION

Net cash inflow from operating activities for the year ended 31 December 2008 was about RMB88.6 million. This amount was primarily attributable to profit before tax of about RMB94.8 million from continuing operations and an increase in amounts due to directors of about RMB27.8 million due to loan to the company from Mr. Lin for the construction of Xiamen Plant. This was partially offset by income tax paid of RMB12.0 million, an increase in inventories of about RMB10.6 million, an increase in trade and notes receivables of about RMB13.6 million and a repayment of amount due to Xiamen Daxiang Protective Sheet Co., Ltd. of RMB2.3 million.

Net cash inflow from operating activities for the year ended 31 December 2007 was about RMB28.4 million. This amount was primarily attributable to profit before tax of about RMB29.7 million and about RMB15.4 million from the continuing operations and discontinued operations respectively, a decrease in inventories of about RMB13.1 million which resulted from the lower buffer stock for raw materials as at 31 December 2007 than at 31 December 2006 and an increase in an amount due to a related party arising from the fund transfer from Xiamen Daxiang Protective Sheet Co., Ltd. of about RMB2.3 million. This was partially offset by an increase in trade and notes receivables of about RMB16.3 million due to the growth of the Group's business and decrease in other payables and accruals of about RMB19.0 million due to the settlement of construction and equipment payable for the then new production line in Fuzhou Plant.

Net cash inflow from operating activities for the year ended 31 December 2006 was about RMB29.3 million. This amount was primarily attributable to profit before tax of about RMB10.6 million and about RMB13.5 million from the continuing operations and discontinued operations respectively, increase in trade and bills payables of about RMB21.8 million due to the increase in purchase of raw materials and the increase in other payables and accruals of about RMB17.3 million as a result of the construction and equipment payable for the new production line in Fuzhou Plant. This was partially offset by an increase in inventories of about RMB25.3 million due to an increased scale of business during the year.

### **Investing activities**

Net cash used in investing activities for the eight months ended 31 August 2009 was about RMB8.2 million. This amount was primarily attributable to payment for purchases of fixed assets of about RMB10.2 million, primarily for (i) certain equipment upgrade for production of Reinforced Materials, purchase of testing equipment, expansion of production capacity for End Products, increase of storage capacity for raw materials, foundation work for Fuzhou Plant phase two and (ii) renovation work for Xiamen Plant. This was partially offset by the proceeds from the disposal of property, plant and equipment of about RMB1.8 million.

Net cash used in investing activities for the year ended 31 December 2008 was about RMB30.8 million. This amount was primarily attributable to payment for purchase of fixed assets of about RMB15.3 million, primarily for certain equipment upgrade for the production of Reinforced Materials and expansion of production capacity for End Products and acquisition of non-controlling interest of Fujian Sijia of about RMB17.7 million. This was partially offset by the proceeds from the disposal of computer equipment of about RMB2.1 million.

## FINANCIAL INFORMATION

Net cash used in investing activities for the year ended 31 December 2007 was about RMB19.7 million. This amount was attributable to the payment for purchase of fixed assets of about RMB16.4 million, primarily for purchase of new production line for the production of Reinforced Materials and settlement for the construction of Xiamen Plant and acquisition of non-controlling interest of Fujian Sijia of about RMB2.9 million.

Net cash used in investing activities for the year ended 31 December 2006 was about RMB34.4 million. This amount was attributable to the payment for purchases of fixed assets of about RMB33.4 million, primarily for purchase of new production facilities and equipments for the production of Reinforced Materials, increase in amount paid for construction in progress at Fuzhou Plant and the commencement of the construction of Xiamen Plant.

### **Financing activities**

Net cash generated from financing activities for the eight months ended 31 August 2009 was about RMB13.7 million. This resulted from new bank loans of RMB29.0 million, being offset by the repayment of RMB15.3 million of bank loans in 2009.

Net cash used in financing activities for the year ended 31 December 2008 was about RMB6.4 million. This amount was attributable to new bank loans of RMB28.7 million and cash contribution from minority shareholders of RMB15 million, which was partially offset by dividends paid of RMB29.1 million and repayment of RMB21.1 million of bank loans in 2008.

Net cash generated from financing activities for the year ended 31 December 2007 was about RMB6.4 million. This amount was attributable to new bank loans of RMB16.4 million, being offset by the repayment of RMB10.0 million of bank loans in 2007.

Net cash used in financing activities for the year ended 31 December 2006 was RMB7.7 million. This amount was attributable to new bank loans of RMB10.7 million, being offset by the repayment of RMB18.4 million of bank loans in 2006.

### **Gearing ratio**

The Group's gearing ratio (calculated by dividing total interest-bearing liabilities by total assets) was about 5.7%, 8.0%, 8.7% and 9.0%, respectively, as at 31 December 2006, 2007 and 2008 and 31 August 2009. The increase in the gearing ratio during the Track Record Period was in line with the increase in the level of interest-bearing bank borrowings of the Group.

## FINANCIAL INFORMATION

### Net current assets/(liabilities)

The following table sets out the current assets and current liabilities of the Group (excluding discontinued operation) as at the balance sheet dates indicated:

	As at 31 December			As at	As at
	2006	2007	2008	31 August 2009	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
<b>CURRENT ASSETS</b>					
Inventories	31,067	19,896	36,825	34,175	36,318
Trade and notes receivables	13,543	31,666	45,462	51,505	84,715
Prepayments, deposits and other receivables	11,566	15,170	13,997	13,611	79,340
Due from directors	–	1,281	500	75	–
Due from related parties	2,500	2,820	–	–	–
Cash and cash equivalents	16,133	30,340	87,612	227,673	185,238
	<u>74,809</u>	<u>101,173</u>	<u>184,396</u>	<u>327,039</u>	<u>385,611</u>
<b>CURRENT LIABILITIES</b>					
Trade and bills payables	42,991	44,326	50,102	62,628	48,119
Other payables and accruals	31,309	12,647	11,011	22,842	23,879
Interest-bearing bank borrowings	9,312	11,317	19,500	33,500	35,000
Due to directors	17,469	18,850	35,887	36,263	–
Due to a related party	–	2,300	–	883	–
Tax payable	314	896	3,317	6,029	6,453
	<u>101,395</u>	<u>90,336</u>	<u>119,817</u>	<u>162,145</u>	<u>113,451</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>	<u>(26,586)</u>	<u>10,837</u>	<u>64,579</u>	<u>164,894</u>	<u>272,160</u>

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The Group had net current liabilities (excluding discontinued operation) of about RMB26.6 million as at 31 December 2006 and net current assets (excluding discontinued operation) of about RMB10.9 million, RMB64.6 million and RMB164.9 million as at 31 December 2007 and 2008 and 31 August 2009, respectively. The Group had current assets (excluding discontinued operation) of about RMB74.8 million, RMB101.2 million, RMB184.4 million and RMB327.0 million as at 31 December 2006, 2007 and 2008 and 31 August 2009, respectively. The Group had current liabilities (excluding discontinued operation) of about RMB101.4 million, RMB90.3 million, RMB119.8 million and RMB162.1 million as at 31 December 2006, 2007 and 2008 and 31 August 2009, respectively. The Group's current assets mainly consisted of inventories, trade and notes receivables, prepayments, deposits and other receivables and cash and cash equivalents. The Group's current liabilities mainly consisted of trade and bills payables, other payables and accruals and interest-bearing bank borrowings.

As at 31 December 2009, the Group had net current assets of RMB272.2 million. The significant increase in net current assets of the Group as at 31 December 2009 when compared to that of 31 December 2008 and 31 August 2009 was mainly due to the net profits of the Group during the year. The Group's current assets as at 31 December 2009 comprised inventories of RMB36.3 million, trade and notes receivables of RMB84.7 million, prepayments, deposits and other receivables of RMB79.3 million and cash and cash equivalents of RMB185.2 million. The Group's current liabilities as at 31 December 2009 comprised trade and bills payables of RMB48.1 million, other payables and accruals of RMB23.9 million and bank borrowings of RMB35.0 million.

### **Working capital**

Taking into account the financial resources available to the Group including internally generated funds, available banking facilities and the estimated net proceeds of the Global Offering, the Directors are of the opinion that the Group has sufficient working capital to meet the Group's present requirements, and for the period ending 12 months from the date of this prospectus.



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### CERTAIN BALANCE SHEET ITEMS

The table below sets forth a summary of the combined balance sheet of the continuing operations of the Group as at 31 December 2006, 2007 and 2008 and 31 August 2009. It should be read in conjunction with the Accountants' Report set forth in Appendix I to this prospectus.

	As at 31 December			As at
	2006	2007	2008	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	61,365	71,815	67,381	80,602
Prepaid land lease payments	5,105	5,597	5,499	5,435
Intangible assets	–	–	382	325
Advance payments for property, plant and equipment	361	144	11,385	416
	<u>66,831</u>	<u>77,556</u>	<u>84,647</u>	<u>86,778</u>
<b>CURRENT ASSETS</b>				
Inventories	31,067	19,896	36,825	34,175
Trade and notes receivables	13,543	31,666	45,462	51,505
Prepayments, deposits and other receivables	11,566	15,170	13,997	13,611
Due from directors	–	1,281	500	75
Due from related parties	2,500	2,820	–	–
Cash and cash equivalents	16,133	30,340	87,612	227,673
	<u>74,809</u>	<u>101,173</u>	<u>184,396</u>	<u>327,039</u>
<b>CURRENT LIABILITIES</b>				
Trade and bills payables	42,991	44,326	50,102	62,628
Other payables and accruals	31,309	12,647	11,011	22,842
Interest-bearing bank borrowings	9,312	11,317	19,500	33,500
Due to directors	17,469	18,850	35,887	36,263
Due to a related party	–	2,300	–	883
Tax payable	314	896	3,317	6,029
	<u>101,395</u>	<u>90,336</u>	<u>119,817</u>	<u>162,145</u>
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing bank borrowings	–	4,375	3,875	3,542
Deferred tax	–	–	1,455	3,597
	<u>–</u>	<u>4,375</u>	<u>5,330</u>	<u>7,139</u>

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Net assets of Fujian Si Tai Di, which amounted to about RMB10.5 million and about RMB7.9 million, and net assets of Smile in Rain, which amounted to RMB169,000 and RMB3.5 million as at 31 December 2006 and 2007, respectively (which mainly compressed property, plant and equipment, inventories, prepayments, deposits and other receivables and other payable and accruals), have been included in the combined balance sheet of the Group's continuing operations as at 31 December 2006 and 2007.

### Inventory

The following table sets out a summary of the Group's inventory balances as at the balance sheet dates indicated, as well as inventory turnover days of the Group for the periods indicated.

	<b>As at 31 December</b>			<b>As at</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>31 August</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	18,205	8,952	19,540	20,787
Work in progress	550	2,360	12,957	1,896
Finished goods	12,312	8,584	4,328	11,492
	<u>31,067</u>	<u>19,896</u>	<u>36,825</u>	<u>34,175</u>
Inventory turnover days	180 days	71 days	74 days	41 days

Inventory turnover days are derived by dividing the closing balances of inventory as at 31 December 2006, 2007 and 2008 and 31 August 2009 by the cost of sales for the corresponding year/period and multiplying by 365 days/240 days.

During the year ended 31 December 2006, the raincoat and general protective clothing business still contributed about 51.6% of the Group's total revenue before it was discontinued in May 2008. Since the manufacturing process for raincoat was normally longer as compared to Materials, the Group would need to store more buffer basic raw materials (which is commonly used for both the production of raincoats and Materials). In addition, majority of the Group's Conventional Materials are sold to customers whom utilized them for mass market raincoat and labour protective clothing production whereas Reinforced Materials are more customized to meet specific customers' requirements. As such, the Group usually would maintain higher inventory level for Conventional Materials due to its mass market nature and for the year ended 31 December 2006, sale of Conventional Materials contributed about 65.4% of the total revenue from continuing operations. Therefore, the ending inventory level in 2006 remained relatively larger, and resulting in the significantly larger stock turnover days in 2006. Following the gradual phase-out of raincoat and general protective clothing business from 2007 onwards, the inventory turnover days decreased in 2007 and 2008, as compared to 2006. The inventory turnover days increased slightly from 71 days in 2007 to 74 days in 2008 as a result of the global economic downturn in the second half of 2008, which resulted in increased number

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of customers who requested delay in delivery of goods around the end of 2008. The inventory turnover days decreased significantly to 41 days for the eight months ended 31 August 2009. It is because the Group increased production and sale of End Products in 2009. The production of End Products is normally only scheduled upon receipt of the sales order from the customers. Therefore, the buffer stock of raw materials required for the production of End Products is minimal, while the Group will keep certain level of buffer stock of raw materials for Materials. Generally, the inventory turnover days of End Products are lower than that of the Materials, resulting in the overall lower inventory turnover days for the eight months ended 31 August 2009 as the percentage contribution of End Products increased.

### Trade and notes receivables

The Group's trading arrangements with its customers are mainly on credit. The credit period is generally one month, although a longer credit term of up to three months may be extended to customers with whom the Group has long-term business relationships and with a good credit history.

An aging analysis of the trade and notes receivables of the Group as at the respective reporting dates, based on the invoice date, is as follows:

	As at 31 December			As at
	2006	2007	2008	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1 to 30 days	6,367	16,816	25,127	40,303
31 to 60 days	2,315	8,144	11,263	1,269
61 to 90 days	842	4,185	1,583	2,299
91 to 360 days	3,801	1,906	7,455	7,634
Over 360 days	218	615	34	–
	13,543	31,666	45,462	51,505
Debtors' turnover days	59 days	78 days	55 days	35 days

Debtors' turnover days are derived by dividing the closing balances of trade and notes receivables as at 31 December 2006, 2007 and 2008 and 31 August 2009 by revenue for the corresponding year/period and multiplying by 365 days/240 days.

The debtors' turnover days throughout the Track Record Period were in line with the credit terms offered to the customers which is generally 30 days, extending to 90 days for certain major customers. Generally, for most of the sale of End Products, the Group will need payment in advance from the customers rather than sales on credit. Therefore, the debtors' turnover days for the eight months ended 31 August 2009 of 35 days was significantly lower, due to the increased revenue contribution from End Products in 2009.

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### Trade and bills payables

Trade and bills payables were mainly incurred for the purchase of raw materials, such as polymers, additives and fabrics. The Group generally received credit terms between 20 days and 30 days from its customers. The Group also settled part of the purchase cost by issuing bills with expiry period normally from 2 to 6 months. An aging analysis of the trade and bills payables of the Group as at the respective balance sheet dates indicated, based on the invoice date, is as follows:

	As at 31 December			As at
	2006	2007	2008	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	18,973	16,225	14,515	19,257
1 to 2 months	13,110	11,292	13,579	11,830
2 to 3 months	10,219	1,655	7,213	14,171
3 to 6 months	156	14,842	14,761	17,311
6 to 12 months	468	290	19	57
12 to 24 months	65	22	15	2
	<u>42,991</u>	<u>44,326</u>	<u>50,102</u>	<u>62,628</u>
Creditors' turnover days	250 days	158 days	101 days	75 days

Creditors' turnover days are derived by dividing the closing balances of trade and bills payables as at 31 December 2006, 2007 and 2008 and 31 August 2009 by cost of sales for the corresponding year/period and multiplying by 365 days/240 days.

The creditors turnover days throughout the Track Record Period were in line with the expiry period of the Group's bills payables of up to 6 months. The significantly large creditors' turnover days of 250 days as at 31 December 2006 was due to higher proportion of payment made by bills payables and the time lag (usually one to two months) between receipt of goods and the issuing of invoices by suppliers. The decrease in creditors' turnover days over the Track Record Period was due to the Group's strategy to settle more purchase cost by bank payment rather than issuing bills with longer credit period, in order to satisfy the suppliers' expectation on shortening the settlement period.

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### Prepayments, deposits and other receivables

The following table sets forth a breakdown of prepayments, deposits and other receivables as at the balance sheet dates indicated:

	As at 31 December			As at
	2006	2007	2008	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2009 <i>RMB'000</i>
Other receivables	8,713	8,019	10,308	9,601
Prepayments	2,655	6,868	3,544	3,520
Prepaid expenses	198	283	145	490
	<u>11,566</u>	<u>15,170</u>	<u>13,997</u>	<u>13,611</u>

Other receivables mainly represented funds transfer from the Group to certain corporations such as Xiamen Ming Lian Da, Fujian Si Tai Di, and Fujian Shunfan (which provided guarantee of up to about RMB27,000,000, RMB45,000,000, RMB45,000,000 and RMB63,000,000 as at 31 December 2006, 2007 and 2008 and 31 August 2009, respectively, to the Group for the security of the Group's bank borrowings). The amounts receivables from Fujian Shunfan were interest-free advances granted by the Group on a short term basis when Fujian Shunfan in need of cash flow. The Directors confirmed that all other receivables have been fully settled as at the Latest Practicable Date.

Prepayment mainly represented the prepaid material cost paid to certain suppliers, which required payment in advance. The relatively large balance as at 31 December 2007 was due to a purchase order placed to certain supplier which required payment in advance from the Group near the year end of 2007.

### Other payables and accruals

The following table sets forth a breakdown of other payables and accruals as at the balance sheet dates indicated:

	As at 31 December			As at
	2006	2007	2008	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2009 <i>RMB'000</i>
Other payables	22,776	6,732	610	3,454
Advances from customers	7,536	4,546	7,581	10,723
Taxes other than CIT	401	694	1,833	7,827
Payroll payable	402	482	982	838
Accrued liabilities	194	193	5	-
	<u>31,309</u>	<u>12,647</u>	<u>11,011</u>	<u>22,842</u>

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Other payables in 2006 mainly represented construction cost and equipment cost payable in relation to the Group's new lamination production line in Fuzhou Plant. The significant decrease in other payables from about RMB22.8 million as at 31 December 2006 to about RMB6.7 million as at 31 December 2007, was mainly due to the settlement of about RMB18.3 million of such construction and equipment cost by the Group during 2007. Other payable as at 31 December 2007 mainly represented payable of about RMB3.8 million to Fujian Shunfan (which were interest free advances granted by Fujian Shunfan to the Group on a short term basis when the Group in need of cash flow) and about RMB1.9 million of investment amount received from YueHui Investment for its investment in Fujian Sijia before such capital was formally verified. The increase in other payable from about RMB610,000 as at 31 December 2008 to about RMB3.4 million as at 31 August 2009 was due to equipment cost payable in relation to certain equipment ungrade at the Fuzhou Plant in 2009.

Taxes other than CIT mainly represented valued added tax payable, in which the increase in balance over the Track Record Period was in line with the overall increase in sales of the Group.

### Amounts due from/(to) related parties/directors

The tables below set out the breakdown of balances with related parties and directors of the Group:

(a) Outstanding balances with related parties:

	As at 31 December			As at
	2006	2007	2008	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from a related party:				
Xiamen Ming Lian Da	2,500	-	-	-
Spouse of				
Mr. Zhang Hongwang	-	2,820	-	-
	2,500	2,820	-	-
Due to a related party:				
Xiamen Daxiang				
Protective Sheet				
Co., Ltd.	-	(2,300)	-	(883)
	-	(2,300)	-	(883)

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(b) Outstanding balances with directors:

	As at 31 December			As at
	2006	2007	2008	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2009</i> <i>RMB'000</i>
Due from directors:				
Mr. Lin	–	–	500	75
Mrs. Lin	–	1,281	–	–
	<u>–</u>	<u>1,281</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>1,281</u>	<u>500</u>	<u>75</u>
Due to directors:				
Mr. Lin	(16,850)	(18,850)	(35,887)	(35,928)
Mrs. Lin	(619)	–	–	(335)
	<u>(17,469)</u>	<u>(18,850)</u>	<u>(35,887)</u>	<u>(36,263)</u>

The above balances were non-trade in nature, unsecured, interest-free and had no fixed terms of repayment. Amount due to Mr. Lin of about RMB35.9 million as at 31 August 2009 has been assigned to China Grandsoo as part of the Corporate Reorganization. After that, such amount due to Mr. Lin from Hong Kong Sijia of about RMB35.9 million was assigned to become the amount due to China Grandsoo, in which such intra-group balances will be eliminated in the combined balance sheet of the Group. The Directors confirmed that all other amounts due to/from the related parties/directors will be fully settled before Listing.

#### Foreign exchange and foreign currency

Throughout the Track Record Period, the Group mainly operated in the PRC with most of the Group's transactions settled in RMB. The Group's assets and liabilities, and transactions arising from the Group's operations, are mainly denominated in RMB. The Directors believe the Group's foreign currency risk is minimal and the Group have not used any forward contract or currency borrowing to hedge the Group's exposure.

#### Distributable reserves

The Company was incorporated in the Cayman Islands on 7 October 2009. The Company had no reserves distributable to Shareholders as at 31 August 2009 (the date of the Group's latest audited financial statements), as the Company was not yet incorporated.

## FINANCIAL INFORMATION

### PROPERTY INTERESTS AND PROPERTY VALUATION

The Group's property interests that are attributable to equity holders of the Company as valued by DTZ Debenham Tie Leung Limited, an independent property valuer, as at 31 December 2009 was RMB59,900,000. There is a net revaluation surplus, representing the excess market value of the properties over their book value as of RMB31,248,000 (after adjusting for depreciation and amortization during the period from 31 August 2009 to 31 December 2009). See Appendix IV to this prospectus for further details of the property interests and the text of the letter and valuation report of these property interests prepared by the property valuer.

Disclosure of the reconciliation between the valuation of the interests in properties attributable to equity holders of the Company as at 31 December 2009 and such property interests in the Group's combined balance sheet as at 31 August 2009 as required under Rule 5.07 of Listing Rules is set forth below:

	<i>RMB'000</i>
Net book value of property interests of the Group as at 31 August 2009	
Buildings	23,444
Prepaid land lease payments	5,531
	28,975
Movements for the period from 31 August 2009 to 31 December 2009	
<i>Less:</i> depreciation during the period (unaudited)	(291)
<i>Less:</i> amortization during the period (unaudited)	(32)
Net book value as at 31 December 2009 (unaudited)	28,652
Valuation surplus (unaudited)	31,248
Valuation of properties as at 31 December 2009	59,900

### PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2009

The unaudited pro forma estimated earnings per Share of the Group for the year ended 31 December 2009 has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2009. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial results of the Group.

Estimated combined profit attributable to equity holders of the Company for the year ended 31 December 2009 <sup>(1)</sup>	. . . . . not less than RMB170 million (equivalent to about HK\$193 million)
Unaudited pro forma estimated earnings per Share for the year ended 31 December 2009 <sup>(2)</sup>	. . . . . not less than RMB0.21 (equivalent to about HK\$0.24)



## FINANCIAL INFORMATION

- (1) The bases on which the above profit estimate has been prepared are summarized in Appendix III to this prospectus. The estimated combined profit attributable to equity holders of the Company for the year ended 31 December 2009 has been prepared based on the audited combined results of the Group for the eight months ended 31 August 2009 and the unaudited combined results based on management accounts of the Group for the four months ended 31 December 2009. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Section II of the Accountants' Report, the text of which is set out in Appendix I to this prospectus. The estimated combined profit attributable to equity holders of the Company is translated at the exchange rate of RMB0.882 to HK\$1.
- (2) The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated combined profit attributable to equity holders of the Company for the year ended 31 December 2009, on the basis that 800,000,000 Shares were in issue, assuming that the Shares to be issued pursuant to the Capitalization Issue and the Global Offering had been in issue on 1 January 2009, but does not take into account of any Shares that may be issued upon the exercise of the Over-allotment Option. The unaudited pro forma estimated earnings per Share is translated at the exchange rate of RMB0.882 to HK\$1.

The texts of the letters from Ernst & Young and Piper Jaffray Asia in respect of the profit estimate are set out in Appendix III to this prospectus.

### DIVIDENDS

Declaration of dividends will be subject to the discretion of the Directors, depending on the Group's results, working capital, cash positions and capital requirements. Under the applicable PRC law, each of the Company's subsidiaries in the PRC may only distribute its after-tax profits after it has made allocations or allowances for (i) recovery of accumulated losses; (ii) allocations to the statutory reserves; (iii) allocation to the discretionary welfare fund; and (iv) allocation to a discretionary common reserve fund as may be approved by the board of directors of the Company's subsidiaries in the PRC.

Subject to the availability of the Company's cash and distributable reserves, the Group's investment requirements, and the cashflow and working capital requirements of the Group, it is the Directors' current intention to recommend annually the distribution to Shareholders of not less than 30% of the Group's annual net profits as dividends in the foreseeable future. It is also the Directors' current intention to declare not less than 30% of the Group's net profit for the year ending 31 December 2010 as dividends following the Listing of the Shares.

Dividends in the amounts of RMB29.1 million was declared by the Group for the year ended 31 December 2008. The dividends were paid out of the Group's operating cash flow.

### UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets of the Group have been prepared based on the audited combined net assets of the Group as at 31 August 2009 as extracted from "Appendix I – Accountants' Report", and is adjusted as described below.

## FINANCIAL INFORMATION

Audited combined net tangible assets attributable to equity holders of the Company as at 31 August 2009 <sup>(1)</sup> RMB'000	Estimated net proceeds from the Global Offering <sup>(2)</sup> RMB'000	Unaudited pro forma adjusted combined net tangible assets <sup>(3)</sup> RMB'000	Unaudited pro forma adjusted combined net tangible assets per Share <sup>(4)</sup> RMB                      HK\$		
Based on an Offer Price of HK\$2.69 per Share	244,208	437,579	681,787	0.85	0.97
Based on an Offer Price of HK\$4.13 per Share	244,208	682,682	926,890	1.16	1.31

(1) The audited combined net tangible assets attributable to equity holders of the Company as at 31 August 2009 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the equity holders as at 31 August 2009 of RMB244,533,000 with an adjustment for intangible assets as at 31 August 2009 of RMB325,000.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.69 and HK\$4.13 per Share, respectively, after the deduction of the estimated underwriting fees and other related fees and expenses, and do not take into account of any Shares that may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised, the unaudited pro forma adjusted combined net tangible assets attributable to equity holders and unaudited pro forma adjusted combined net tangible assets per Share will increase. The estimated net proceeds from the Global Offering are translated at the exchange rate of RMB0.882 to HK\$1.

(3) Details of valuation of the Group's properties as at 31 December 2009 are set out in Appendix IV to this prospectus. With reference to such valuation, there is a revaluation surplus of about RMB31,248,000 compared to the carrying values of the Group's properties as at 31 December 2009. The Group will not incorporate the revaluation surplus in the combined financial statements for the year ended 31 December 2009 or the above unaudited pro forma adjusted combined net tangible assets because it is the Group's accounting policy to state the property interests, classified under the captions "Property, plant and equipment" and "Prepaid land lease payments" in the Accountants' Report set out in Appendix I to this prospectus, at cost less accumulated depreciation/amortization and impairment rather than at revalued amounts. Had these property interests been stated at such valuation, an additional depreciation/amortization of about RMB1,562,000 per annum would have been incurred.

(4) The unaudited pro forma adjusted combined net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 800,000,000 Shares are issued and outstanding as set out in the "Share Capital" section of this prospectus, and that the Over-allotment Option has not been exercised. The unaudited pro forma adjusted net tangible assets per Share are translated at the exchange rate of RMB0.882 to HK\$1.

### NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Group's business development, financial or trading positions or prospects since 31 August 2009, being the date to which the Group's latest audited financial statements were prepared.