

## SUMMARY

### OVERVIEW

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

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

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

	For year ended 31 December					
	2007		2008		2009	
	RMB’000	% of Group’s revenue	RMB’000	% of Group’s revenue	RMB’000	% of Group’s revenue
Wader and protective garment materials	3,978	2.7%	37,496	12.5%	91,309	16.0%
Inflatable materials	8,561	5.8%	70,252	23.4%	89,814	15.7%
Air tightness materials	12,854	8.6%	24,204	8.1%	67,841	11.9%

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

## SUMMARY

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

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

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

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

According to Frost & Sullivan, as at 30 September 2009, the Group was the only manufacturer who manufactures both Reinforced Materials for and End Products of biogas tanks for biomass and sewage related projects in the PRC. The Group began sale of biogas tank Reinforced Materials and biogas tank End Products in 2009 and for the year ended 31 December 2009, revenue from biogas tank Reinforced Materials and biogas tank End Products was about RMB14.4 million and RMB5.3 million respectively, representing about 2.5% and about 0.9% of the Group's total turnover from continuing operations during the year.

## SUMMARY

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

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

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

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

## SUMMARY

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

## SUMMARY

<b>Type of products</b>	<b>Main applications</b>	<b>Main characteristics</b>
Sports hall flooring materials	Flooring for indoor stadiums, sports centers, athletic meets of schools and courts for badminton, ping-pong, volleyball etc	Anti-bacteria, fire retardant, oil proof, anti-static, stain resistance, no toxic materials, environmental-friendly, abrasion-resistance formula, durable, surface embossing and high motive adhesion
Professional hiking snowshoes materials	Professional hiking snowshoes, sledges and snowboards	Low temperature resistance formula ensuring usage in low temperature, high tensile strength, anti-tearing and high adhesive strength
Curtain materials	Curtains for offices, hotels, residences and warehouses, and automatic rolling gates	Colour fastness, good opaque quality, fire retardant, oil proof, anti-acidic and alkaline, anti-bacteria, stain resistance and easily cleaned

## SUMMARY

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

	For the year ended 31 December					
	2007		2008		2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Wader and protective garment materials	3,978	8.4	37,496	22.5	91,309	26.8
Air tightness materials	12,854	27.2	24,204	14.5	67,841	19.9
Inflatable materials	8,561	18.1	70,252	42.2	89,814	26.4
Tarpaulin	5,202	11.0	8,254	4.9	17,385	5.1
Bag materials	16,692	35.3	26,454	15.9	37,411	11.0
Medical materials	-	-	-	-	9,195	2.7
Biogas tank materials	-	-	-	-	14,437	4.2
Curtain materials	-	-	-	-	10,393	3.1
Professional hiking snowshoes materials	-	-	-	-	2,094	0.6
Sports hall flooring materials	-	-	-	-	771	0.2
Total	<u>47,287</u>	<u>100.0</u>	<u>166,660</u>	<u>100.0</u>	<u>340,650</u>	<u>100.0</u>

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

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

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

## SUMMARY

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

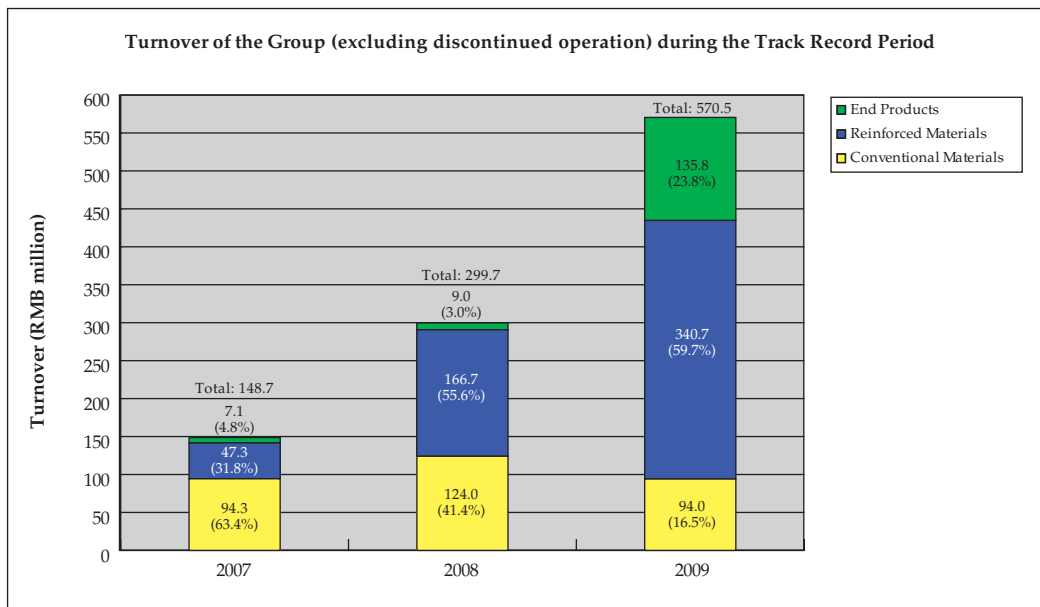
Set out below is a revenue breakdown analysis of the Group's Conventional Materials business segment:

	For the year ended 31 December					
	2007		2008		2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Polymer film	16,101	17.1	14,363	11.6	26,622	28.3
Polymer coated polyester	44,938	47.6	73,163	59.0	50,869	54.1
Lining	4,094	4.3	3,836	3.1	1,858	2.0
Polymer coated nylon	967	1.0	480	0.4	4,872	5.2
PVC-poly	14,048	15.0	26,561	21.4	8,693	9.3
Coated fabrics	14,184	15.0	5,573	4.5	1,075	1.1
	<u>94,332</u>	<u>100.0</u>	<u>123,976</u>	<u>100.0</u>	<u>93,989</u>	<u>100.0</u>

## SUMMARY

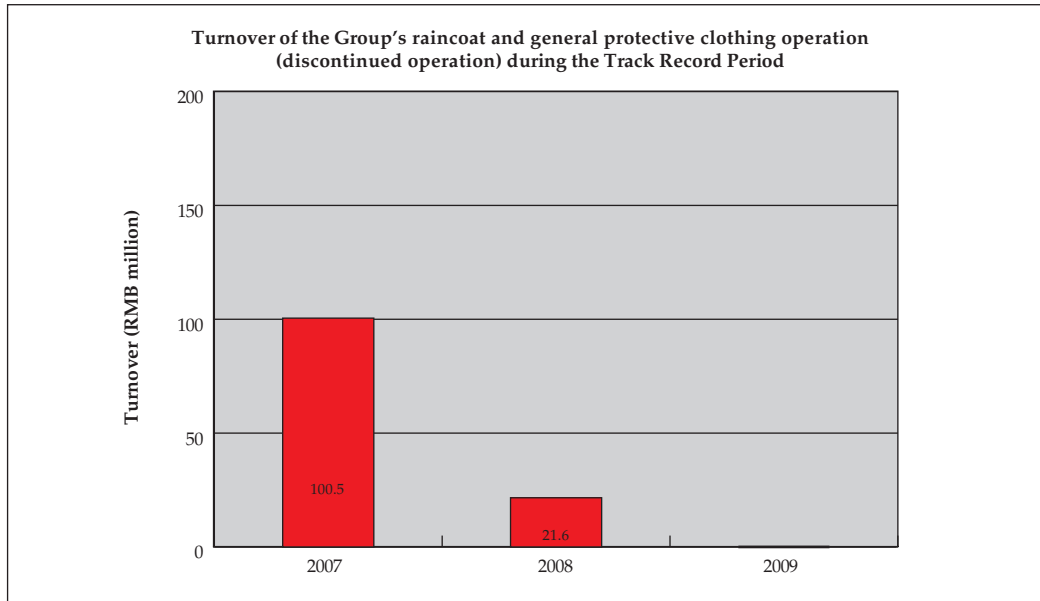
During the Track Record Period, most of the Group's Conventional Materials were principally sold to the raincoat and labour protective clothing manufacturers and trading companies. Despite the Group's primary focus on the development and sale of Reinforced Materials, the Group would continue, depending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

For each of the three years ended 31 December 2007, 2008 and 2009, turnover of Reinforced Materials accounted for about 31.8%, 55.6% and 59.7%, respectively, of the Group's total turnover (excluding discontinued operation) whilst turnover of Conventional Materials accounted for about 63.4%, 41.4% and 16.5%, respectively, of the Group's total turnover (excluding discontinued operation). Turnover of Reinforced Materials increased from about RMB47.3 million in 2007 to RMB340.7 million in 2009, representing a CAGR of about 168.4%. The increasing contribution by the Reinforced Materials business throughout the Track Record Period demonstrated the Group's successful strategy to focus on delivering high performance Reinforced Materials. To differentiate the Group's products from other manufacturers, the Group has started to imprint with and market the Group's Reinforced Materials under the "Sijia" brand name and the "S" trademark.





## SUMMARY



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

To capitalize on the growing international and, in particular the PRC, downstream outdoor leisure and recreational products market and to leverage on its expertise in manufacturing Reinforced Materials which are used to manufacture downstream inflatable and waterproof products, the Group began to develop its End Products business and engaged in small scale production since 2007 and further increased its production capacity by commencing the operation of the Xiamen Plant in 2009. All End Products of the Group are manufactured using its own brand of Reinforced Materials in order to control the quality of its End Products. For each of the three years ended 31 December 2007, 2008 and 2009, turnover of End Products accounted for about 4.8%, 3.0% and 23.8%, respectively, of the Group's total revenue (excluding discontinued operation). Turnover of End Products for the year ended 31 December 2009 was about RMB135.8 million.

## SUMMARY

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

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

## SUMMARY

As at the Latest Practicable Date, the Group's End Products were sold to 123 and 43 domestic and international customers respectively (including outdoor and waterproof sports and leisure product retailers, wholesalers, trading companies, drifting clubs and outdoor event organizers). During each of the three years ended 31 December 2007, 2008 and 2009, the amount of about RMB7.1 million, RMB9.0 million and RMB135.2 million, representing about 100.0%, 100.0% and 99.5% of the Group's sales amount of End Products were sold under the Group's own brands. The remaining mainly represents sales to international brands.

During each of the three years ended 31 December 2007, 2008 and 2009, the Group's domestic sales (excluding discontinued operation) amounted to about RMB146.2 million, RMB289.8 million and RMB557.9 million, respectively, and the Group's overseas sales (excluding discontinued operation) amounted to about RMB2.5 million, RMB9.8 million and RMB12.6 million, for the same periods, respectively.

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

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

The Group places strong emphasis on continued research and development and has a qualified research and development team based in Fuzhou, Fujian Province which focuses on improving its existing technology, processing techniques, production efficiency and the development of new products. As at the Latest Practicable Date, the Group's research and development department had 31 personnel with diploma and undergraduate qualifications, including two engineers and four assistant engineers, in the relevant disciplines including polymer materials, chemical engineering and electrical technology. As at the Latest Practicable Date, the Group held 49 registered patents (including 1 invention patent, 30 utility model patents and 18 design patents) and had 20 patents in the process of application for registration.

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

## SUMMARY

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

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

## SUMMARY

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

## SUMMARY

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

The Directors believe that the Group's technology expertise, research and development capability and product quality, sales and services network and customer-oriented services contributed to the growth of the Group over the Track Record Period. During the Track Record Period, turnover (excluding the discontinued operation) increased from about RMB148.7 million in 2007 to about RMB570.5 million in 2009, representing a CAGR of about 95.9%. Net profit (excluding the discontinued operation) increased from about RMB26.1 million in 2007 to about RMB171.2 million in 2009, representing a CAGR of about 156.0%.

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

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

### **Companies disposed of during the Track Record Period and the discontinued raincoat and general protective clothing business**

Before the manufacture and sale of Reinforced Materials, the Group was also engaged in the raincoat and general protective clothing business which involved the manufacture and sale of raincoat and general protective clothing using Conventional Materials as raw materials.

Smile in Rain and Fujian Si Tai Di were early raincoat and general protective clothing manufacturing companies established by Mr. Lin. From early 2006, the Group decided to centralize its raincoat and general protective clothing business under Fujian Sijia, thus Fujian Si Tai Di and Smile in Rain had remained inactive since then. Due to increasing market competition and relatively lower profit margin of raincoat and general protective clothing business and with a view to focus on higher margin Reinforced Materials, the Group subsequently disposed of (i) all its equity interests in Fujian Si Tai Di and Smile in Rain to Bestide Int'l, a Hong Kong incorporated company wholly-owned by Mr. Cai Zhiguo, in January 2008; and (ii) its raincoat and general protective clothing business of Fujian Sijia to Smile in Rain (which at the time was owned by Bestide Int'l to hold the acquired raincoat and general protective clothing business of Fujian Sijia) in May 2008.

## SUMMARY

On 30 January 2008, the 100% interest in Fujian Si Tai Di (which held 75% interest of Smile in Rain) was disposed of by Hong Kong Sijia to Bestide Int'l for a consideration of HK\$10,000,000 based on the registered capital of Fujian Si Tai Di. On 25 January 2008, the 25% interest in Smile in Rain was disposed of by Hong Kong Sijia to Bestide Int'l for a consideration of RMB1,550,148 based on the portion of the registered capital of Smile in Rain actually contributed by Hong Kong Sijia. On 31 May 2008, Smile in Rain (now under the ownership and management of Bestide Int'l) acquired Fujian Sijia's raincoat and general protective clothing business for a consideration of RMB2,146,000 with reference to its relevant net asset value immediately before the disposal. After the disposal, Smile in Rain continued to purchase Materials from the Group for the production of its raincoat products.

After disposals of Fujian Sijia's raincoat and general protective clothing business in May 2008, the Group ceased to hold any interests in raincoat and general protective clothing business. The raincoat and general protective clothing business of Fujian Sijia is shown as the discontinued operation of the Group during the Track Record Period in note 13 to the Accountants' Report in Appendix I. As Fujian Si Tai Di and Smile in Rain were dormant and there was no written and active plan approved by the board of Hong Kong Sijia to dispose of these two subsidiaries during the Track Record Period prior to their disposal, Fujian Si Tai Di and Smile in Rain were recorded as part of the continuing operations of the Group according to the relevant accounting standards during the Track Record Period. Their disposals were recorded as disposal of subsidiaries in note 28 to the Accountants' Report.

For the year ended 31 December 2007, Smile in Rain's revenue and net losses were nil and about RMB83,000 respectively. As at 31 December 2007, Smile in Rain's net asset value were about RMB3.5 million. For the year ended 31 December 2007, Fujian Si Tai Di's revenue and net losses were nil and about RMB2.6 million respectively. As at 31 December 2007, Fujian Si Tai Di's net asset value were about RMB7.9 million.

### SUMMARY OF FINANCIAL INFORMATION

The tables below summarize the Group's consolidated financial information for each of the three years ended 31 December 2007, 2008 and 2009, and as at 31 December 2007, 2008 and 2009. The following summary was extracted from the Group's consolidated financial statements included in the Accountants' Report set out in Appendix I to this prospectus. You should read the entire financial statements, including the notes thereto, included in Appendix I to this prospectus for more details.

# SUMMARY

## Summary Consolidated Statements of Income

	Year ended 31 December		
	2007 RMB'000	2008 RMB'000	2009 RMB'000
<b>CONTINUING OPERATIONS</b>			
REVENUE	148,715	299,644	570,492
Cost of sales	<u>(102,718)</u>	<u>(180,480)</u>	<u>(311,624)</u>
Gross profit	45,997	119,164	258,868
Other income and gains	348	3,308	1,979
Selling and distribution costs	(1,660)	(4,317)	(3,612)
Administrative expenses	(13,512)	(20,959)	(49,657)
Other expenses	(718)	(485)	(881)
Finance costs	<u>(758)</u>	<u>(1,951)</u>	<u>(2,139)</u>
PROFIT BEFORE TAX	29,697	94,760	204,558
Tax	<u>(3,568)</u>	<u>(15,313)</u>	<u>(33,346)</u>
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	<u>26,129</u>	<u>79,447</u>	<u>171,212</u>
<b>DISCONTINUED OPERATION</b>			
Profit for the year from a discontinued operation	<u>13,255</u>	<u>1,730</u>	<u>–</u>
PROFIT FOR THE YEAR	<u><b>39,384</b></u>	<u><b>81,177</b></u>	<u><b>171,212</b></u>
Attributable to:			
Equity holders of the Company (Note)	36,783	61,266	171,212
Non-controlling interests	<u>2,601</u>	<u>19,911</u>	<u>–</u>
	<u><b>39,384</b></u>	<u><b>81,177</b></u>	<u><b>171,212</b></u>
DIVIDENDS	<u>–</u>	<u>29,080</u>	<u>–</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			
Basic (RMB):			
For profit for the year	<u>6.13 cents</u>	<u>10.21 cents</u>	<u>28.54 cents</u>
For profit from continuing operations	<u>4.06 cents</u>	<u>9.99 cents</u>	<u>28.54 cents</u>
For profit from a discontinued operation	<u>2.07 cents</u>	<u>0.22 cents</u>	<u>–</u>
<i>Note:</i>			
Profit attributable to equity holders of the Company:			
– from continuing operations	24,356	59,951	171,212
– from a discontinued operation	<u>12,427</u>	<u>1,315</u>	<u>–</u>
	<u><b>36,783</b></u>	<u><b>61,266</b></u>	<u><b>171,212</b></u>



## SUMMARY

### Summary Consolidated Balance Sheet Information

	As at 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets</b>			
Current assets	118,121	184,396	334,744
Non-current assets	77,556	84,647	135,116
	<u>195,677</u>	<u>269,043</u>	<u>469,860</u>
Total assets	<u>195,677</u>	<u>269,043</u>	<u>469,860</u>
<b>Equity and liabilities</b>			
Current liabilities	100,608	119,817	112,304
Non-current liabilities	4,375	5,330	6,556
Total equity	90,694	143,896	351,000
	<u>195,677</u>	<u>269,043</u>	<u>469,860</u>
Total equity and liabilities	<u>195,677</u>	<u>269,043</u>	<u>469,860</u>

### Summary Consolidated Cash Flow Statement Information

	Year ended 31 December		
	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow from operating activities	28,429	88,560	141,586
Net cash outflow from investing activities	(19,678)	(30,839)	(59,777)
Net cash inflow/(outflow) from financing activities	6,380	(6,397)	15,577
	<u>15,131</u>	<u>51,324</u>	<u>97,386</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,131	51,324	97,386
Cash and cash equivalents at beginning of year	22,132	36,664	87,612
Effect of foreign exchange rate changes, net	(599)	(376)	(11)
	<u>36,664</u>	<u>87,612</u>	<u>184,987</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>36,664</u>	<u>87,612</u>	<u>184,987</u>

## SUMMARY

### Summary Revenue Components

	For the year ended 31 December					
	2007		2008		2009	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Continuing operations						
– Reinforced Materials	47,287	19.0	166,660	51.9	340,650	59.7
– Conventional Materials	94,332	37.9	123,976	38.6	93,989	16.5
– End Products	7,096	2.8	9,008	2.8	135,853	23.8
Revenue from continuing operations	148,715	59.7	299,644	93.3	570,492	100.0
Discontinued operation						
– Raincoats and general protective clothing	100,481	40.3	21,585	6.7	–	–
<b>Total revenue</b>	<b>249,196</b>	<b>100.0</b>	<b>321,229</b>	<b>100.0</b>	<b>570,492</b>	<b>100.0</b>

### OFFER STATISTICS

<b>Offer Price</b>	<b>HK\$3.28</b>
Market capitalization of the Shares <sup>(1)</sup>	HK\$2,624 million
Historical 2009 price/earnings multiple <sup>(2)</sup>	13.5 times
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(3)</sup>	HK\$1.25

*Notes:*

- (1) The calculation of market capitalization is based on 800,000,000 Shares expected to be in issue following the Global Offering and the Capitalization Issue, but takes no account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any Shares that may be allotted and issued or repurchased by the Company.
- (2) The calculation of the historical price/earnings multiple on a pro forma is based on the consolidated earnings attributable to the equity holders of the Company for the year ended 31 December 2009 of about RMB171.2 million, the Offer Price of HK\$3.28 per Share and assuming 800,000,000 Shares were already in issue on 1 January 2009. This calculation does not take into account Shares which may be issued upon exercise of the Over-allotment Option or any Shares that may be allotted and issued or repurchased by the Company. The consolidated earnings attributable to the equity holders of the Company is translated at the exchange rate of RMB0.882 to HK\$1.

## SUMMARY

- (3) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in Appendix II and based on 800,000,000 Shares expected to be in issue following the Global Offering and the Capitalization Issue, but takes no account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any Shares that may be allotted and issued or repurchased by the Company.

### 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.

Throughout the Track Record Period, dividends in the amounts of about 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.

### COMPETITIVE STRENGTHS

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

- Leading market position
- Vast product applications and integrated business model
- High brand recognition
- Strong research and development capabilities and commitment to product innovation
- Strong manufacturing capability
- High quality products with stringent quality control
- Dedicated, stable and experienced management team

## SUMMARY

### FUTURE PLANS AND STRATEGIES

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

- Development of new products
- Expand production capacity
- Expand sales network and distribution channels
- Brand building and product promotion

### USE OF PROCEEDS

The net proceeds of the Global Offering after deducting the underwriting commissions and estimated expenses payable by us in relation to the Global Offering, are estimated to amount to about HK\$600.0 million. The Group intends to apply the net proceeds in the following manner:

- As to about HK\$210.9 million, representing about 35.1% of the net proceeds from the Global Offering for the development of Fuzhou Plant phase two (12.3%), expansion of production capacity at existing plants (10.5%) and increase in product offerings (12.3%) respectively;
- As to about HK\$172.6 million, representing about 28.8% of the net proceeds from the Global Offering for the expansion of sales network and distribution channels, brand building and product promotion;
- As to about HK\$133.8 million, representing about 22.3% of the net proceeds from the Global Offering for the enhancement of the Group's research and development capabilities;
- As to about HK\$22.7 million, representing about 3.8% of the net proceeds from the Global Offering for the upgrade of the hardwares and softwares of the ERP system; and
- As to about HK\$60.0 million, representing about 10.0% of the net proceeds from the Global Offering to be used as additional general working capital of the Group.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, the Directors currently intend that such proceeds will be placed on short-term deposits with licensed banks or financial institutions in Hong Kong.

## SUMMARY

### SUMMARY OF RISK FACTORS

The Company believes that there are certain risks involved in its operations. Many of these risks are beyond its control and can be categorized into: (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; (iv) risks relating to ownership of Shares; and (v) risks relating to the Global Offering.

#### Risks Relating to the Group

- Maintaining technological expertise
- Development of new products
- No assurance that future expansion plans of the Group will be commercially successful
- Profit margin sustainability
- The Group's ability to retain its senior management team
- Sales orders on a short-term basis
- Reliance on major customers
- Fluctuations in the price and supply of raw materials
- Reliance on major suppliers
- Uncertain protection and possible infringement of the Group's intellectual property rights
- Potential changes or discontinuation of the favorable tax treatments in the PRC currently available to the Group
- Possibility of claims over defective products
- Seasonal fluctuations
- Risk relating to property title of the Xiamen Land and the Xiamen Plant
- The Group's business is subject to operational risks
- Inability to secure additional funding in the future
- Natural disaster and adverse weather conditions
- Future dividend policy
- The Group may experience a shortage of labor or its labor costs may increase

## SUMMARY

### **Risks Relating to the Industry**

- Competition
- Dependence on the growth of the various industries
- Environmental protection regulations and requirements
- Licences, certificates and permits required for the production of the Group's products in the PRC

### **Risks Relating to the PRC**

- Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC government
- The PRC legal system is not fully developed and has inherent uncertainties which could limit the legal protections available to the Company
- Fluctuations in the exchange rates of the Renminbi
- PRC Government control over currency conversion may affect the value of your investment and limit the Group's ability to use its cash effectively
- Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit the Group's ability to acquire PRC companies and adversely affect the implementation of the Group's acquisition strategy as well as its business and prospects
- The Company may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on the Group's worldwide income
- Dividends payable from the Company's PRC subsidiaries to it and dividends payable by the Company to its foreign investors and gain on the sale of the Shares may become subject to withholding taxes under the PRC tax laws
- Acts of God, acts of war and other disasters could affect the Group's business
- Investors and Shareholders may experience difficulties in effecting service of legal process and enforcing judgments against the Company and its management
- The recent enacted PRC Employment Contract Law may increase the Group's labour costs

## SUMMARY

### **Risks Relating to Ownership of Shares**

- There has been no prior public market for the Shares
- The trading price of the Shares may be volatile which could result in substantial losses for investors purchasing Offer Shares in the Global Offering
- Future sale of the Shares or major divestment of Shares by any major shareholder could adversely affect the Share price
- Investors in the Global Offering may experience dilution if the Company issues additional Shares in the future
- The interests of the Controlling Shareholders may not always coincide with the Company's interests and those of other Shareholders

### **Risks Relating to the Global Offering**

- Certain facts, forecasts and other statistics with respect to the PRC, the PRC economy and the industry in which the Group operates within the PRC contained in this prospectus have not been independently verified
- No reliance should be placed on any information not contained in this prospectus, including, in particular, any financial projections, valuations or other forward-looking statements contained in press articles or other media regarding the Group and the Global Offering and not contained in this prospectus