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MEMORANDUM

To: Charles Williamson, Dale Edgel, Lowell Bradford, Clyde Cousins, Maria Trinh, Robert Lord
From: Hugh McCauley
Re: China Relocation

Confidential

Our initial decision to locate our China operations in Hangzhou was driven largely by the fact that our Chinese partners already had facilities there and the city's proximity to the Qiantang River. We thought that the river access which led on to Hangzhou Bay would be sufficient to handle our shipping needs.

As the production volume from the China plant has increased, we are seeing that significant savings can be had by utilizing container shipping companies such as the China Shipping Container Lines, a branch of the China Shipping (Group) Company. Most of the container shipping companies utilize ports in Hong Kong and Shanghai.

While the Shanghai port is only 180 kilometers away from our current location, we are incurring additional logistical steps in shipping out of Shanghai.

- Currently, our products are trucked to a port on the Qiantang River and loaded into shipping containers. The containers are then loaded onto barges that make their way to the Shanghai port. The barges dock in Shanghai where the containers are offloaded and trucked to another area of the port where they are loaded onto the ships that will take them to their final destinations.
- Alternatively, we could transport the products by truck to the port at Shanghai where they would be loaded into containers and then directly onto the ships that will be taking them to their final destinations. However, the trucking companies, knowing that they are being used as an alternative to the local shipping companies to move the same products to the Shanghai ports, generally charge just as much as the shipping companies for the same volume of goods.

We believe that the relocation of the China operations to the city of Shanghai will result in significant cost savings, will provide our operations with a more substantial urban infrastructure and will put us into a better position to market and ship our Chinese products throughout Asia and Europe.

We have incorporated a move of the China operations to Shanghai within the next five years into the strategic planning of Riordan Manufacturing and Riordan Industries. Please begin drafting strategic plans for how such a move will impact your areas of responsibility and how your areas will facilitate the relocation.



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