

## OVERVIEW

Our 霸王 (Bawang) brand is the leading Chinese brand in the overall shampoo market in the PRC. According to Euromonitor, our 霸王 (Bawang) brand had the largest market share among all Chinese brands in the overall shampoo market in the PRC in terms of retail sales in 2007 and the first half of 2008 of approximately 6.2% and 7.6%, respectively. We primarily design, manufacture and market Chinese herbal shampoo and hair-care products under our 霸王 (Bawang) brand, skin-care products and Other Products such as toothpaste and shower gels.

We have successfully set ourselves apart from our competitors by establishing our 霸王 (Bawang) brand, which was awarded 中國馳名商標 (Well-known Trademark of China) in 2007, as the leading brand in the Chinese herbal shampoo market in the PRC with market shares in terms of retail sales in 2006, 2007 and the first half of 2008 of approximately 24.3%, 43.5% and 46.3%, respectively, according to Euromonitor. Chinese consumers are becoming increasingly conscious of their health and lifestyle which, among other things, has led to increased demand for Chinese herbal shampoo. We believe that we are well positioned in this market to meet changing consumer preferences and increasing market demand.

We believe that one of our core competitive strengths is our ability to meet consumer demands by providing high quality Chinese herbal HPC products. We have introduced various types of Chinese herbal HPC products to meet the needs and demands of different consumer groups. We continuously upgrade our existing products and develop new products. We also cooperate with (i) universities in the PRC to develop new techniques and know-how, such as essence extraction; and (ii) an association in the PRC which provides us with technical support in the production of our Chinese herbal shampoo. We believe that our continual efforts in research and development enable us to maintain and strengthen our leadership, competitiveness and profitability in the market.

We generally sell our products through our distributors and retailers. As of 31 December 2008, our extensive distribution and retail network comprised 567 distributors and 46 KA retailers, covering 24 provinces and four municipalities in the PRC as well as Hong Kong, Macao and Singapore. We launched our products in Hong Kong, Macao and Singapore in 2008 and we expect to launch our products in Malaysia, Myanmar and Thailand in 2009. Building on our leading position in the Chinese herbal shampoo market in the PRC, we intend to continue to expand our business by exploring other markets outside the PRC such as Taiwan.

We believe our leading positions among Chinese brands in the overall shampoo market in the PRC and in the Chinese herbal shampoo market in the PRC are mainly attributable to our innovative and multi-faceted marketing strategies. Our dedicated marketing and promotion team is responsible for the design and promotion of our brands and products and the formulation of our marketing strategies. We have implemented our marketing strategies through various channels including (i) television commercials and sponsorship of television programs; (ii) advertising in newspapers, magazines, the Internet, public transportation, billboards, banners and kiosks; (iii) strategically selecting suitable celebrities as our brand ambassadors; (iv) organizing frequent in-store marketing and promotional activities and roadshows; and (v) attending Chinese herbal-related events to market our products.

We have enjoyed rapid growth during the Track Record Period. Our revenue and net profit grew at CAGRs of 89.7% and 55.9% from 2006 to 2008, respectively. Our revenue for the years ended 31 December 2006, 2007 and 2008 were RMB392.4 million, RMB921.7 million and RMB1,411.2 million, respectively. Our net profits for the same periods were RMB116.0 million, RMB181.3 million and RMB281.8 million, respectively.

**COMPETITIVE STRENGTHS**

We believe that our success and future prospects are based on a combination of the following competitive strengths:

**Leading market position in the fast-growing Chinese herbal shampoo market in the PRC**

Our 霸王 (Bawang) brand is the leading brand in the Chinese herbal shampoo market in the PRC with the largest market share in terms of retail sales in 2006, 2007 and the first half of 2008 of approximately 24.3%, 43.5% and 46.3%, respectively, according to Euromonitor. Since the launch of our 霸王 (Bawang) brand, we have been focusing on achieving and maintaining the top position in the Chinese herbal shampoo segment.

With improved living standards in China, Chinese consumers are increasingly conscious of their health and lifestyle, which among other things, has led to an increase in the demand for Chinese herbal HPC products. According to Euromonitor, demand for Chinese herbal shampoo in the PRC has grown rapidly, with retail sales increasing from approximately RMB418 million in 2002 to RMB1,982 million in 2007, representing a CAGR of 36.5%, which accounted for approximately 10.2% in 2002, and 14.2% in 2007 of the entire shampoo market in the PRC. Leveraging on our solid experience and expertise in research and development and our strong design and marketing capabilities, we have successfully positioned our 霸王 (Bawang) brand at the forefront of the Chinese herbal shampoo market in the PRC. We believe that we are well positioned to benefit from the rapid growth of the Chinese herbal HPC products market in the PRC and we have the capability to offer a wide variety of Chinese herbal HPC products to meet the growing demand of Chinese consumers.

**Unique brand positioning and strong brand recognition**

We have positioned our 霸王 (Bawang) brand as the leading brand in the Chinese herbal shampoo market in the PRC with an aim to capture growing consumer demand for Chinese herbal HPC products. Through our continued and focused brand-building efforts in the PRC market, we have built strong brand recognition and successfully set ourselves apart from our competitors. Our 霸王 (Bawang) brand was awarded 中國馳名商標 (Well-known Trademark of China) by the State Administration for Industry and Commerce in 2007 and we have received various awards and certificates, details of which are set out in the section headed "Awards and Certificates" in this section of the prospectus. We believe that our 霸王 (Bawang) brand is uniquely positioned and is widely recognized by Chinese people, both in the PRC and among Chinese communities outside the PRC.

Our unique brand positioning and strong brand recognition have supported our business growth, as demonstrated by the significant increase of our market share in the overall shampoo market in the PRC in terms of retail sales from 0.7% in 2005 to 7.6% in the first half 2008, representing a 159.6% CAGR.

**Our strong product research and development capabilities and dedication to quality control**

In order to strengthen our competitive edge and leading market position, we strive to continuously diversify our product offerings and upgrade our existing products to be at the forefront of consumer trends and developments. We adapt to the ever-changing market trends by offering Chinese herbal HPC products that match consumer preferences. Combining our proprietary formulae, technology, accumulated experience and knowledge in the Chinese herbal shampoo and hair-care products market in the PRC, we have a proven track record of developing quality Chinese herbal shampoo and hair-care products. For the years ended 31 December 2006, 2007 and 2008, we have developed and launched 18, 11 and 7 new products, respectively, under our 霸王 (Bawang) brand. Our research and development capabilities are further strengthened by our cooperations with universities and an association in the PRC. We believe that our focus on research and development has helped make our 霸王 (Bawang) brand the leading brand in the Chinese herbal shampoo market in the PRC.

We place strong emphasis on the quality of our products and adopt stringent quality control policies in the selection of our raw materials, packaging materials and throughout our production process. We have stringent selection criteria for our suppliers with regard to the quality of their services and products and we adopt vigorous inspection policies on the raw materials and packaging materials we receive from our suppliers. We also conduct regular checks throughout our production process to ensure full compliance with our internal quality standards and those set by the PRC government. We obtained ISO9001 quality management system certification in 2007. We believe our continuous implementation of strict quality standards can assure the quality of our products and also help maintain and improve our reputation.

### **Established nationwide distribution and retail network**

The continual expansion of our nationwide distribution and retail network during the Track Record Period has accelerated the penetration of our brands and strengthened the sales of our products. For the years ended 31 December 2006, 2007 and 2008, our extensive distribution and retail network comprised 374, 530 and 567 distributors, respectively, as well as 24, 36 and 46 KA retailers, respectively, covering 24 provinces and four municipalities in the PRC as well as Hong Kong, Macao and Singapore. We select our distributors based on the scale of their existing distribution networks, warehouse facilities, delivery capabilities, sales personnel, financial condition, creditworthiness and compatibility with our business strategies. We select our retailers based on their business scale, number of retail outlets, coverage of sales and reputation.

We maintain flexibility in our distribution arrangements by selecting distributors with different market penetration in order to target our consumer groups more effectively. We adopt a policy of having at least two distributors in a defined district in the PRC, one of which will sell our products to mid-to-large size retailers and the other will sell our products to small-to-mid size retailers. This flexible arrangement allows us to grow our business in various markets based on local market conditions, reduce our risk in doing business in areas where we are less familiar and most importantly, expand our geographical coverage and increase our sales revenue.

### **Innovative and effective branding and multi-faceted marketing strategy**

We have implemented an innovative and effective branding and multi-faceted marketing strategy to promote our brands and products. We have implemented our marketing strategies through various channels including (i) television commercials and sponsorship of television programs; (ii) advertising in newspapers, magazines, the Internet, public transportation, billboards, banners and kiosks; (iii) strategically selecting suitable celebrities as our brand ambassadors; (iv) organizing regular and frequent in-store marketing activities and roadshows; and (v) attending particular Chinese herbal-related events to market our products.

We place emphasis on television commercials which are broadcast through various major television stations in the PRC including China Central Television (CCTV), Guangzhou Television, Beijing Television and Shanghai Television, and outside the PRC, including Television Broadcasts Limited (TVB) and Asia Television Limited (ATV) in Hong Kong, and MediaCorp TV Singapore Pte Ltd. in Singapore. We require our retailers to strictly follow our product display policy to ensure easy and consistent identification of our brands and products from the consumers' perspective. We require our distributors to procure their sub-distributors and their retailers to follow our products display policy. We also offer bundled packages with supplementary products to consumers. We believe our leading position among other brands in the Chinese herbal shampoo market in the PRC is mainly attributable to our innovative and effective branding and multi-faceted marketing strategy.

### **Experienced, dedicated and innovative management team with a track record of delivering growth and profitability**

We believe our key management team's experience and extensive knowledge in the Chinese herbal HPC products industry have enabled us to achieve rapid growth during the Track Record Period. Our chairman and executive Director, Mr. Chen, and our chief executive officer and executive

Director, Ms. Wan, have an average of 15 years of experience in the Chinese herbal HPC products industry in China with extensive knowledge in business management, marketing, investment and strategic planning. During the Track Record Period, we grew rapidly and successfully obtained a significant market share in the Chinese herbal shampoo market in the PRC. We believe our success and growth have been largely due to the strength of our senior management team, who possess leadership and vision to anticipate changes in consumer preferences and develop new products to ensure our future growth.

We have adopted the Pre-IPO Share Option Scheme and the Share Option Scheme to motivate our Directors, senior management and employees, for details, please refer to the sections headed “Pre-IPO Share Option Scheme” and “Share Option Scheme” in Appendix V to this prospectus. We believe that the interests of our Directors, senior management and employees are concurrent with our Shareholders’ interests and they are fully incentivized to create value for our business and our Shareholders.

## **STRATEGIES**

We aim to become a global leader of branded Chinese herbal HPC products. We intend to achieve this goal by implementing the following strategies:

### **Strengthen our leading market position in the Chinese herbal shampoo market, further diversify our Chinese herbal HPC product offerings and continue to adopt a multi-brand portfolio strategy**

According to Euromonitor, the Chinese herbal shampoo market has been growing rapidly as people in China are becoming increasingly conscious in their health and lifestyle and interested in HPC products with natural ingredients. As the leading brand in the Chinese herbal shampoo market in the PRC, we are well positioned to benefit from future growth in this market. During the Track Record Period, we sold our products under three brands, namely 霸王 (Bawang), 雪美人 (Smerry) and 丽涛 (Litao). We introduced our 追風 (Royal Wind) brand for our new series of Chinese herbal shampoo and hair-care products in May 2009. We intend to launch a new series of Chinese herbal skin-care products in the second half of 2009. We will continue to invest our resources in our Chinese herbal shampoo products to strengthen our leading market position and further increase our market share. We have adopted a multi-brand portfolio strategy to expand our customer base and increase our market share in the Chinese herbal HPC product markets through the introduction of new brands and products or through selected acquisitions. We believe these diversification measures enable us to offer a more comprehensive product portfolio, differentiate and segment our target markets with unique brand names that cater for and appeal to different consumer groups and therefore increase our profitability.

### **Enhance existing and new brand promotion to raise brand awareness**

We will continue to market our brands and products through our dedicated marketing and promotional team. We will continue to strengthen our marketing efforts in the PRC and follow the same approach we currently adopted in the PRC to promote our brands and products in other markets outside the PRC through various marketing and promotional activities such as sponsorship of programs and increasing the frequency of our in-store marketing and promotional activities.

### **Expand our distribution and retail network**

We will continue to strengthen our position as the leading brand in the Chinese herbal shampoo market in the PRC by increasing market penetration through the expansion of our existing distribution and retail network. We will continue to increase the number of distributors and retailers and increase the number of sales representatives to assist us in the expansion of our network coverage, particularly in cities, regions and countries that we do not currently cover. We will continue to work closely with our distributors and retailers and monitor their performance on a regular basis to ensure that our products are ultimately sold to consumers in an effective manner. Furthermore, we will invest additional

resources in our marketing and promotional activities to increase consumer recognition of our brands and purchase of our products.

We believe that our products not only appeal to the consumers in the PRC but also attract consumers outside the PRC. We export our products to markets outside the PRC in which there is demand for our products. We launched our products in Hong Kong, Macao and Singapore in 2008 and we expect to launch our products in Malaysia, Myanmar and Thailand in 2009. Building on our leading position in the Chinese herbal shampoo market in the PRC and our successful launch of our products in Hong Kong, Macao and Singapore, we intend to explore other markets outside the PRC such as Taiwan.

We believe that the expansion of our distribution and retail network in the PRC as well as to other markets outside the PRC will enable us to increase our sales and raise awareness of our brands and products.

### **Continue to strengthen our research and development capabilities**

We believe that our long-term success and growth will largely depend on our ability to upgrade our existing products and develop new products that closely follow consumer preferences and market demand. Based on our past experience, demand for our upgraded products and new products will normally increase after they were launched to the consumer markets. We will continue to devote resources to research and development activities and strengthen our cooperation with universities and associations in the PRC. We intend to establish a new research and development center with advanced equipment and expand our team of specialists with an aim to becoming a leading research and development team in Chinese herbal HPC products in the PRC.

### **Expand our production capacity**

We plan to expand our production capacity to meet growing demand for our products and gain market share in both the PRC market and markets outside the PRC. We intend to lease a new production premises with an estimated area of approximately 75,000 m<sup>2</sup> located in Baiyun District, Guangzhou. The first phase of construction is expected to be completed by the end of 2009 and all remaining phases of construction are expected to be completed by 2012. We plan to install advanced equipment, increase the number of production lines and expand our labor scale. We will apply for ISO9001 certification for our new production lines. We believe that increasing our production area, installing additional advanced equipment, increasing the number of production lines and expanding our labor scale will allow us to increase our annual production capacity for shampoo and hair-care products to approximately 100,000 metric tons by the end of 2009. Our aggregated planned capacity for all HPC products is expected to be approximately 280,000 metric tons by 2012.

### **Expand into the upstream business to secure supply and control quality of raw materials**

We currently rely on third-party suppliers for the raw materials that we use in our production. We intend to lease suitable land in the PRC and invest in the plantation of raw materials, such as Chinese herbs, to secure supply and assure the quality of our raw materials. This will allow us to reduce our reliance on third-party suppliers and reduce our costs. We believe that expansion into the upstream business together with our existing quality control policies will enable us to assure the quality of our products. The Group has not engaged in any plantation of raw materials during the Track Record Period.

### **Attract and retain talented personnel**

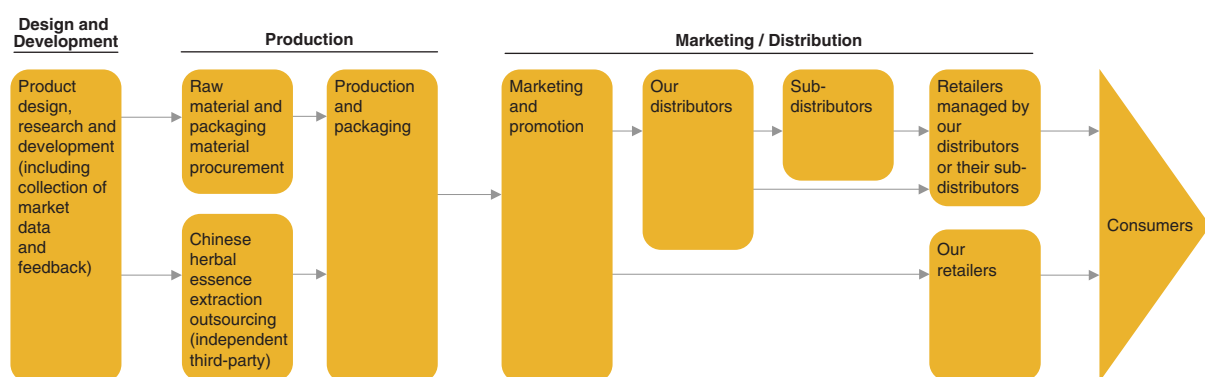
We believe that successful implementation of our growth and business strategies will depend upon experienced, motivated and well-trained members of the management and employees at all levels. We intend to attract and retain talented individuals in the industry by providing attractive remuneration



packages and well-designed training to our personnel. We offer our employees a range of incentives, including bonuses and entitlement to our Pre-IPO Share Option Scheme and Share Option Scheme, to encourage loyalty of our employees and to promote a customer-focused corporate culture. For details of the Pre-IPO Share Option Scheme and Share Option Scheme, please refer to the sections headed “Pre-IPO Share Option Scheme” and “Share Option Scheme” in Appendix V to this prospectus.

## BUSINESS MODEL

We believe that the HPC product industry in the PRC, particularly the Chinese herbal HPC product industry, has high growth potential. We introduced our first Chinese herbal shampoo series under our 霸王 (Bawang) brand in 1998. Following the success of our sales of 霸王 (Bawang) branded products in the PRC, we have progressively adopted a multi-brand and products strategy with a diversified portfolio of products under our brands, namely 霸王 (Bawang), 雪美人 (Smerry) and 丽涛 (Litao). In continuance of this strategy, we introduced a new brand 追风 (Royal Wind) in 2009. The following diagram illustrates our business model:



Our business has experienced substantial growth during the Track Record Period and we believe that such growth was primarily due to:

- our ability to leverage our leading 霸王 (Bawang) brand’s position in the Chinese herbal shampoo market, which has set ourselves apart from our competitors, to develop new brands and products which meets today’s changing consumer preferences and increase overall market share .
- our research and development team and scalable production ability allowed us to develop and launch 18, 11 and 7 new products under our 霸王 (Bawang) brand for the years ended 31 December 2006, 2007 and 2008, respectively.
- our extensive distribution and retail network comprised 567 distributors and 46 KA retailers as of 31 December 2008, covering 24 provinces and four municipalities in the PRC, as well as markets outside the PRC such as Hong Kong, Macao and Singapore allowed us to conduct sales of our new and existing products efficiently and effectively.
- our innovative and multi-faceted marketing strategies such as utilizing multiple channels including (i) television commercials and sponsorship of television programs; (ii) advertising in newspapers, magazines, the Internet, public transportation, billboards, banners, kiosks; (iii) strategically selecting suitable celebrities as our brand ambassadors; (iv) organizing frequent in-store marketing activities and roadshows; and (v) attending Chinese herbal-related events allowed us to continue to maintain our leading position among other brands in the Chinese herbal shampoo market in the PRC.
- our key management team’s experience and extensive knowledge in the Chinese herbal HPC products industry as well as their combined experience in business management and marketing and strategic planning which has steered our development and growth with leadership and vision.

## OUR BRANDS

We have built strong brand recognition for our 霸王 (Bawang) brand, which was recognized as 中國馳名商標 (Well-known Trademark of China) in 2007. We adopt a multi-brand portfolio strategy to market our products to various consumer groups. The introduction of our 丽涛 (Litao) branded non-Chinese herbal HPC products, our 雪美人 (Smerry) branded skin-care products and our 追風 (Royal Wind) branded Chinese herbal shampoo and hair-care products has allowed us to tap into a wider consumer base across the PRC as well as markets outside the PRC. We believe that our multi-brand portfolio strategy enables us to expand our product portfolio and increase our market share in the HPC products markets. The following table sets forth our key brands:

<u>Brand<sup>(1)</sup></u>	<u>Year of Introduction</u>	<u>Key Product Type</u>	<u>Target Consumer Groups<sup>(2)</sup></u>
霸王 (Bawang)	1998	Chinese herbal shampoo, hair-care products and toothpaste products	Medium and high end markets
丽涛 (Litao)	2001	Non-Chinese herbal shampoo, hair-care products, shower products and liquid soap	Medium end market
雪美人 (Smerry)	2004	Skin-care products	Medium end market
追風 (Royal Wind)	2009	Chinese herbal shampoo and hair-care products	Medium and high end markets

Notes:

- (1) The 霸王 (Bawang), 丽涛 (Litao), 雪美人 (Smerry) and 追風 (Royal Wind) brands were developed by Mr. Chen and Ms. Wan.
- (2) The Group identified the target consumer groups based on the retail price range of our products after considering the consumer preferences and affordability.

## BUSINESS

The following table sets forth the breakdown of our revenue and revenue contribution by brands and products for the years ended 31 December 2006, 2007 and 2008, respectively:

Brand	Categories	Key Series of Products	Year ended 31 December					
			2006		2007		2008	
			Amount (RMB'000)	% of Total Revenue	Amount (RMB'000)	% of Total Revenue	Amount (RMB'000)	% of Total Revenue
霸王 (Bawang)	Shampoo and Hair-care Products	Chinese Herbal Essence Shampoo Series <sup>(1)</sup>	109,882	28.0%	373,022	40.5%	474,498	33.6%
		Anti-hair Loss and Regrow Shampoo <sup>(1)</sup>	100,973	25.7%	245,524	26.6%	335,675	23.8%
		Hair-blackening Shampoo <sup>(1)</sup>	43,402	11.1%	44,585	4.8%	34,483	2.4%
		Natural Herbal Shampoo Series	—	0.0%	42,828	4.6%	188,215	13.3%
		Fruit Acid Series <sup>(1)</sup>	69,032	17.6%	94,180	10.2%	162,007	11.5%
		Chinese Recipe Series <sup>(1)</sup>	23,805	6.1%	70,771	7.7%	126,024	9.0%
		Other Products	9,074	2.3%	18,201	2.0%	22,880	1.6%
	Others	2,806	0.7%	1,799	0.2%	4,775	0.4%	
		<b>Subtotal</b>	<b>358,974</b>	<b>91.5%</b>	<b>890,910</b>	<b>96.6%</b>	<b>1,348,557</b>	<b>95.6%</b>
雪美人 (Smerry)	Skin-care Products	Skin-care Products	8,210	2.1%	13,456	1.5%	7,871	0.6%
丽涛 (Litao)	Other Products	Toothpaste Products	4,135	1.1%	302	0.0%	—	0.0%
		Shampoo and Hair-care Products	15,429	3.9%	5,592	0.6%	13,240	0.9%
		Non-Chinese Herbal Shower Products	3,181	0.8%	7,768	0.8%	36,789	2.6%
		Others	2,440	0.6%	3,652	0.5%	4,791	0.3%
	<b>Subtotal</b>	<b>25,185</b>	<b>6.4%</b>	<b>17,314</b>	<b>1.9%</b>	<b>54,820</b>	<b>3.8%</b>	
	<b>Total</b>	<b>392,369</b>	<b>100.0%</b>	<b>921,680</b>	<b>100.0%</b>	<b>1,411,248</b>	<b>100.0%</b>	

Note:

(1) Revenue contribution from Chinese herbal hair conditioners is accounted under the respective key series of products.



## Awards and Certificates

Our Group and our 霸王 (Bawang) brand have received a number of awards and certificates which include the following:

Year of grant	Award/Certificate	Awarding Body
2003	中華中醫藥學會推廣產品 (Recommended Product by China Association of Chinese Medicine) <sup>(2)</sup>	中華中醫藥學會 (China Association of Chinese Medicine)
2004	中國化妝品最具消費競爭力品牌 (The Most Competitive Brand in the Consumption of Cosmetics in China) <sup>(2)</sup>	中國香料香精化妝品工業協會 (China Fragrance and Cosmetics Industrial Association)  2004年中國(上海)國際美容化妝洗滌用品博覽會組委會 (The Committee of the 2004 China (Shanghai) International Beauty, Cosmetics and Cleansing Appliances Exhibition)
2005	2005中國第三屆洗滌、美髮、化妝品十佳品牌 (3 <sup>rd</sup> China Top 10 Brands for Cleansing, Hair Beauty and Cosmetics Products in 2005) <sup>(2)</sup>	羊城晚報 (Yangcheng Evening News)
2006	第二屆中國化妝品行業十大影響力品牌 (2 <sup>nd</sup> China Top 10 Most Influential Brands in the Cosmetics Industry) <sup>(2)</sup>	全國行業領先企業品牌推選組委會 (The Election Committee of the National Industry Leading Brand)
	2005-2006年湖南省消費者信得過品牌 (Trustworthy Brand in Hunan Province in 2005-2006) <sup>(2)</sup>	湖南省消費者委員會 (Consumer Council of Hunan Province)
	廣州市著名商標證書 (Certificate for Famous Trademark of Guangzhou City) (valid until August 2009) <sup>(2)</sup>	廣州市工商行政管理局 (Administration for Industry and Commerce of Guangzhou City)
	中國品牌建設十大優秀企業 (China's Top 10 Most Outstanding Brand Development Enterprises) <sup>(3)</sup>	全國行業領先企業品牌推選組委會 (The Election Committee of the National Industry Leading Brand)
2007	中國馳名商標 (Well-known Trademark of China) <sup>(2)</sup>	國家工商行政管理局 (State Administration for Industry and Commerce)
	廣東省著名商標 (Famous Trademark of Guangdong Province) <sup>(2)</sup>	廣東省工商行政管理局 (Administration for Industry and Commerce of Guangdong Province)
	廣東省名牌產品 (Famous Branded Products in Guangdong Province) (valid until August, 2010) <sup>(2)</sup>	廣東省質量技術監督局 (Quality and Technology Supervision of Guangdong Province)
	白雲區名牌戰略獎 (Strategic Famous Brand in Baiyun District) <sup>(2)</sup>	廣州市白雲區人民政府 (People's Government of Guangzhou Baiyun District)

Year of grant	Award/Certificate	Awarding Body
2008	中國中藥日化行業最具影響力第一品牌 (China's No.1 Most Influential Brand in the Chinese Herbal Daily-use Chemical Industry) <sup>(2)</sup>	全國行業領先企業品牌推選組委會 (The Election Committee of the National Industry Leading Brand)
	中國中藥護理洗髮水最具公信力品牌 (China's Most Trustworthy Brand of Chinese Herbal Shampoo) <sup>(2)</sup>	中國十大最具公信力品牌推舉組委會 (The Election Committee of China's Top 10 Most Trustworthy Brands)

**Notes:**

- (1) Each of the awarding bodies is independent from the Group and the Group has not commissioned any of them to conduct any survey, election or study.
- (2) Awards and certificates awarded to our 霸王 (Bawang) brand.
- (3) Award received by Guangzhou Bawang.

**OUR PRODUCTS**

Our products comprise three categories: (i) shampoo and hair-care products; (ii) skin-care products; and (iii) Other Products.

**Shampoo and Hair-care Products**

Our 霸王 (Bawang) brand is the leading brand in the Chinese herbal shampoo market in the PRC in terms of retail sales in 2006, 2007 and the first half of 2008, according to Euromonitor. During the Track Record Period, we sold our Chinese herbal shampoo and hair-care products under our 霸王 (Bawang) brand and we sold our non-Chinese herbal shampoo and hair-care products under our 麗濤 (Litao) brand. The following is a list of our key shampoo and hair-care products and product series:

Key Products/Key Product Series	Key Products and Year Launched	Product Unit Size	Sample Product Picture
霸王品牌 中草藥精華洗髮 精華素系列 <b>(Chinese Herbal Essence Shampoo Series under the 霸王 (Bawang) brand)</b>	烏髮固髮組方 (Hair-blackening and Strengthening Shampoo) (2006); 焗油養髮組方 (Nutrition Treatment Oil Shampoo) (2006); and 去屑止癢組方 (Anti-dandruff and Itch-relieving Treatment) (2006)	200 ml 400 ml 1,000 ml	
霸王品牌 育髮防脫洗髮液 <b>(Anti-hair Loss and Regrow Shampoo under the 霸王 (Bawang) brand)</b>	育髮防脫洗髮液 (Anti-hair Loss and Regrow Shampoo) (2005)	200 ml	
霸王品牌 烏髮快洗髮液 <b>(Hair-blackening Shampoo under the 霸王 (Bawang) brand)</b>	烏髮快洗髮液 (Hair-blackening Shampoo) (2005)	200 ml	

**BUSINESS**

Key Products/Key Product Series	Key Products and Year Launched	Product Unit Size	Sample Product Picture
<p>霸王品牌 天然植物洗髮液系列 <b>(Natural Herbal Shampoo Series under the 霸王 (Bawang) brand)</b></p>	<p>皂角去屑天然植物洗髮露 (Chinese Honeylocust Plant Anti-dandruff Shampoo) (2007); 茶籽去屑天然植物洗髮露 (Tea-seed Anti-dandruff Shampoo) (2007); 首烏黑亮天然植物洗髮露 (Polygonum Hair-blackening Shampoo) (2007); 人參養潤天然植物洗髮露 (Ginseng Nourishment Shampoo) (2007); 銀杏柔順滋養去屑洗髮露 (Ginkgo Nourishment Shampoo) (2007); and 薑汁怡神去屑洗髮露 (Ginger Anti-dandruff Relaxation Shampoo) (2007)</p>	<p>200 ml 400 ml 750 ml</p>	
<p>霸王品牌果酸系列 <b>(Fruit Acid Series under the 霸王 (Bawang) brand)</b></p>	<p>皂角首烏焗油洗髮精華素 (Chinese Honeylocust and Polygonum Fruit Acid Oil-bearing Shampoo) (1998); and 果酸首烏焗油洗髮精華素 (Fruit Acid Polygonum Shampoo) (1998)</p>	<p>200 ml 400 ml 1,000 ml</p>	
<p>霸王品牌 中草藥處方系列 <b>(Chinese Recipe Series under the 霸王 (Bawang) brand)</b></p>	<p>薑汁首烏去屑洗髮精華素 (Ginger Polygonum Fruit Acid Nutrient Shampoo) (1999)</p>	<p>1,000 ml</p>	
<p>丽涛品牌 非中草藥精華 洗髮精華素系列 <b>(Non-Chinese Herbal Essence Shampoo Series under the 丽涛 (Litao) brand)</b></p>	<p>丽涛維生素洗髮露系列 (Litao Vitamin Shampoo Series) (2004)</p>	<p>200 ml 400 ml 750 ml</p>	
<p>霸王品牌 中草藥護髮素 <b>(Chinese Herbal Hair Conditioners under the 霸王 (Bawang) brand)</b></p>	<p>防脫育髮膏 (Anti-hair Loss Conditioner) (2005); 烏髮固髮潤髮膏 (Blackening and Strengthening Conditioner) (2005); 中藥精華修復焗油浸膏 (Hair-repair Treatment Conditioner) (2006); 中藥精華黑亮焗油浸膏 (Chinese Medicine Essence Hair-blackening Conditioning Cream) (2006); 中藥精華深層護理免蒸焗油膏 (Chinese Medicine Essence Deep Conditioning Stream-free Treatment Cream) (2006); 人參養潤天然營養修復精華髮膜 (Hair-repair and Nourishing Conditioner) (2007); and 首烏黑亮天然營養滋潤精華髮膜 (Nourishing and Blackening Conditioner) (2007)</p>	<p>218 grams 300 grams 500 grams</p>	

## BUSINESS

We introduced a new series of Chinese herbal shampoo and hair-care products under our 追風 (Royal Wind) brand in May 2009. Below is a list of our 追風 (Royal Wind) branded shampoo and hair-care products and product series:

<u>Key Products/Key Product Series</u>	<u>Key Products and Year Launched</u>	<u>Product Unit Size</u>	<u>Sample Product Picture</u>
<b>中草藥去屑洗髮液系列</b> <b>(Chinese Herbal Anti-dandruff and Itch-relieving Shampoo Series)</b>	去屑清涼冰爽洗髮露 (Anti-dandruff and Itch-relieving Hair Smoothing Shampoo) (2009); 去屑控油怡神洗髮露 (Anti-dandruff and Itch-relieving Nourishment and Repairing Shampoo) (2009); 去屑絲質柔滑洗髮露 (Anti-dandruff and Itch-relieving Treatment Shampoo) (2009); and 去屑滋潤修復洗髮露 (Anti-dandruff and Itch-relieving Refreshing Shampoo) (2009)	200 ml 400 ml 750 ml	
<b>中草藥去屑護髮素系列</b> <b>(Chinese Herbal Anti-dandruff and Itch-relieving Conditioner Series)</b>	絲質柔滑潤髮精華素 (Hair-nourishing Conditioner) (2009); and 滋潤修復潤髮精華素 (Hair-repairing Conditioner) (2009)	200 ml 400 ml	
<b>中草藥護髮產品系列</b> <b>(Chinese Herbal Hair-care Product Series)</b>	啫哩膏 (Hair Cream); 髮蠟 (Hair Wax); 營養水 (Hair Spray); 啫哩 (Hair Gel); and 彈力素 (Hair Moisturizer) (2009)	120 ml 220 ml 240 ml 120 grams 150 grams 220 grams 240 grams	


### Skin-care Products

We market and sell our skin-care products under our 雪美人 (Smerry) brand. The following is a list of our key product series for our skin-care products:

<u>Key Products Series</u>	<u>Key Products and Year Launched</u>	<u>Product Unit Size</u>	<u>Sample Product Picture</u>
<b>護膚產品系列</b> <b>(Skin-care Products Series)</b>	活泉淨白補水系列 (Mineral-spring Whitening and Moisturizing Series) (2004); 冰泉祛痘系列 (Ice-spring Acne-removing Series) (2004); and 草本潔淨保濕系列 (Botanical Cleansing and Moisturizing Series) (2008)	25 ml to 150 ml 50 grams to 120 grams 2 pieces or 6 pieces	

**Other Products**

As part of our strategy to diversify our product portfolio, we market and sell Other Products under our 霸王 (Bawang) brand and 丽涛 (Litao) brand during the Track Record Period. The following is a list of our key Other Products:

<u>Key Products</u>	<u>Key Products and Year Launched</u>	<u>Product Unit Size</u>	<u>Sample Product Picture</u>
霸王品牌牙膏產品 <b>(Toothpaste Products under the 霸王 (Bawang) brand)</b>	中草藥牙膏 (Chinese herbal toothpastes) (2004)	125 grams	
丽涛品牌 非中草藥沐浴產品 <b>(Non-Chinese Herbal Shower Products under the 丽涛 (Litao) brand)</b>	沐浴及潔淨產品 (Shower and cleansing products) (2004)	1,000 ml 2,300 ml	

As advised by our PRC legal advisor, our products have complied with the relevant PRC safety laws and regulations.

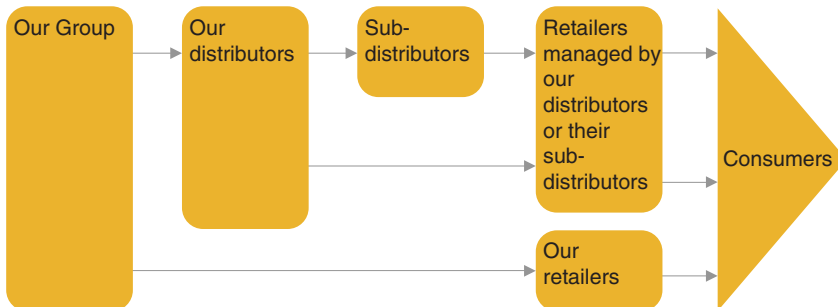
**NEW PRODUCTS AND NEW PRODUCT SERIES UNDER DEVELOPMENT**

In evaluating the market feasibility of a new product or a new product series, we evaluate consumer preferences, anticipate market demand and assess whether the new products or new product series will allow us to capitalize on the comparative advantages gained from our experience and strength. We generally focus our product development efforts on products with attractive margins, as well as those with the potential to help us to reach our revenue growth targets. The following is a list of our new products and new product series under development targeted at the medium and high end markets:

- Chinese herbal skin-care products
- Chinese herbal household cleansing products
- Chinese herbal shower products
- New series of Chinese herbal toothpaste

**DISTRIBUTION AND RETAIL NETWORK**

We generally sell our products through our distributors and retailers. Our distributors will then sell our products to their sub-distributors and/or their retailers. The following diagram illustrates our current distribution and retail model:



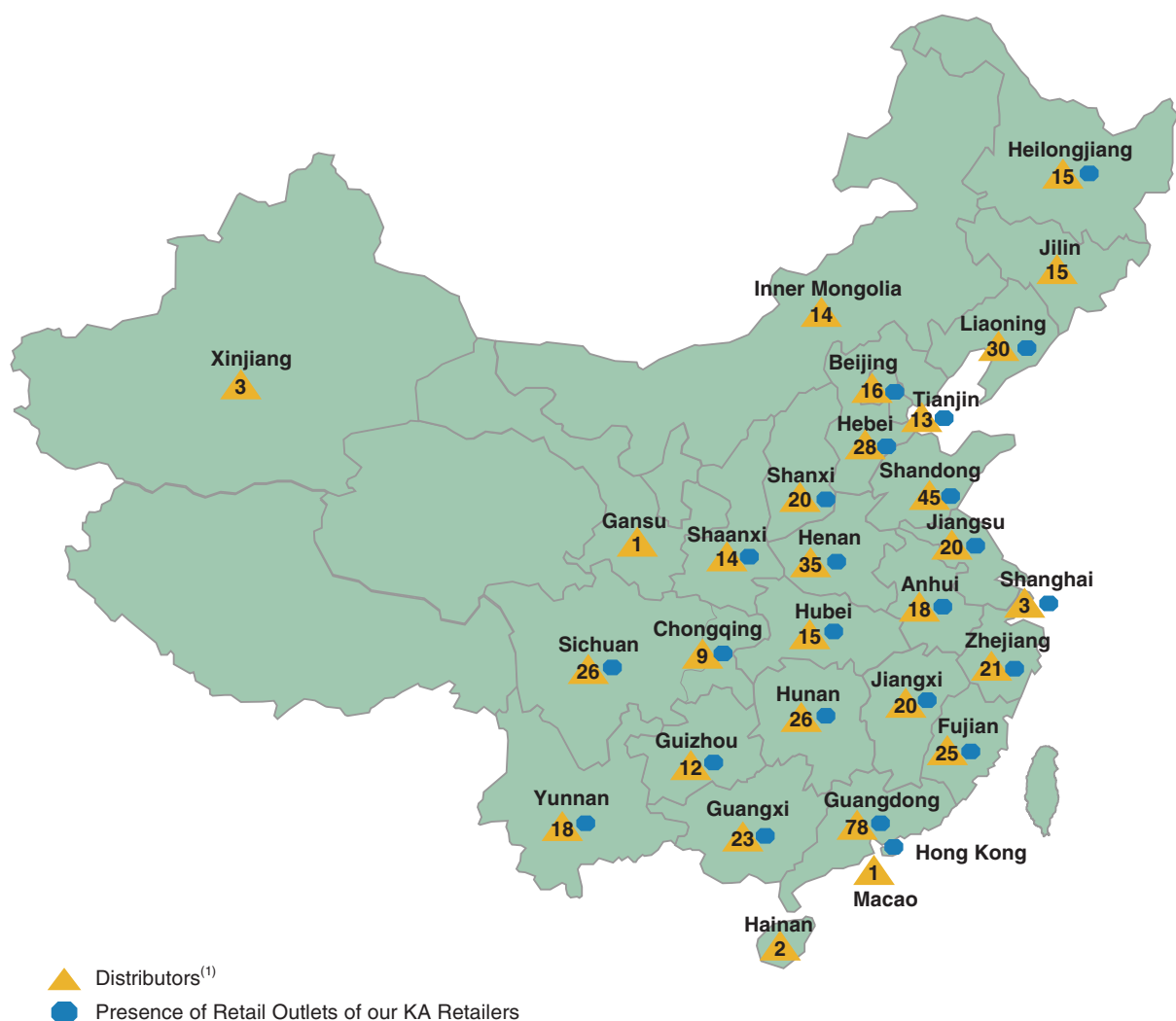
## BUSINESS

The following table sets forth revenue generated through our distributors and retailers for the periods indicated:

Revenue	Year ended 31 December					
	2006		2007		2008	
	Amount (RMB'000)	% of Total Revenue	Amount (RMB'000)	% of Total Revenue	Amount (RMB'000)	% of Total Revenue
Distributors .....	322,847	82.3%	779,462	84.6%	1,182,597	83.8%
Retailers .....	69,522	17.7%	142,218	15.4%	228,651	16.2%
<b>Total</b> .....	<b><u>392,369</u></b>	<b><u>100.0%</u></b>	<b><u>921,680</u></b>	<b><u>100.0%</u></b>	<b><u>1,411,248</u></b>	<b><u>100.0%</u></b>

Our five largest customers contributed in aggregate less than 30% of our total revenue for the years ended 31 December 2006, 2007 and 2008.

The following map sets forth the geographical distribution of our network of distributors and KA retailers in the PRC, Hong Kong and Macao as of 31 December 2008:



Note:  
 (1) We also sell products via a distributor in Singapore



## BUSINESS

The following table sets forth the geographical coverage of our distributors for the years ended 31 December 2006, 2007 and 2008:

<u>Location</u>	<b>Number of distributors as of 31 December</b>		
	2006	2007	2008
Southern Region <sup>(1)</sup> .....	108	135	128
Eastern Region <sup>(2)</sup> .....	63	92	107
Northern & Northeastern Region <sup>(3)</sup> .....	68	125	137
Central Region <sup>(4)</sup> .....	87	99	96
Southwestern Region <sup>(5)</sup> .....	33	55	65
Northwestern Region <sup>(6)</sup> .....	15	24	32
Markets outside the PRC .....	—	—	2
<b>Total</b> .....	<b>374</b>	<b>530</b>	<b>567</b>

Notes:

- (1) Southern region includes Guangdong, Guangxi, Fujian and Hainan.
- (2) Eastern region includes Shanghai, Jiangsu, Zhejiang, Anhui and Shandong.
- (3) Northern & Northeastern region includes Beijing, Tianjin, Hebei, Shanxi, Heilongjiang, Jilin and Liaoning.
- (4) Central region includes Hubei, Hunan, Henan and Jiangxi.
- (5) Southwestern region includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.
- (6) Northwestern region includes Shaanxi, Gansu, Ningxia, Qinghai, Xinjiang and Inner Mongolia.

### Our Distributors

We primarily sell our products to our distributors, who then sell to their sub-distributors and/or their retailers. This sales channel allows us to increase our market penetration and launch new products to the market in a shorter timeframe. Our distributors are primarily engaged in the HPC product distribution business. The Directors confirmed that all of our distributors are independent third-parties.

We select our distributors based on the scale of their existing distribution networks, warehousing facilities, delivery capabilities, sales personnel, financial condition, creditworthiness and compatibility with our business strategies. We maintain flexibility in our distribution arrangements by, among others, selecting distributors with different market penetration in each defined district in the PRC. We adopt a policy of having at least two distributors in a defined district, one of which will sell our products to mid-to-large size retailers and the other distributor will sell our products to small-to-mid size retailers. We categorize these mid-to-large size and small-to-mid size retailers based on their revenue, the number of retail outlets in the district and the floor area of their retail outlets. We believe that our distribution model enables us to manage our distribution network more efficiently and effectively, minimize our risk in doing business in areas where we are less familiar and reduce our reliance on any one distributor. For the years ended 31 December 2006, 2007 and 2008, we had 374, 530 and 567 distributors, respectively. The net increase of our new distributors in 2007 was 156 and in 2008 was 37. We have maintained stable relationships with our top 50 distributors for an average of 4.6 years on a weighted average basis in terms of revenue in 2008.

In order to expand the coverage of our distribution network and deepen our product penetration, we adopt a policy whereby our sales representatives directly approach retailers who are not covered by our existing distribution network. We then assist our distributors, in particular new distributors, to establish relationships with these retailers from whom we obtain sales orders and these sales orders are then passed to our distributors in the same defined district. Our distributors are responsible for supplying our products to these retailers and providing them with logistical support which enables us to reduce logistic and warehousing costs. We believe that our distributors are incentivized to sell our products because of the continuing increase in demand for our products, strong recognition of our 霸王 (Bawang) brand and the support provided by our Group.

As of the Latest Practicable Date, none of our Directors or their respective associates, and none of our existing Shareholders who (to the knowledge of our Directors) own more than five per cent of our issued share capital, have any interest in any of our five largest distributors and we do not have any outstanding material disputes with our existing distributors.

Our five largest distributors contributed in aggregate less than 30% of our total revenue for the years ended 31 December 2006, 2007 and 2008.

#### *Standard Distribution Agreement for distributors in the PRC*

We generally enter into standard distribution agreements with our distributors in the PRC, which specify terms such as delivery, payment and returns policy. The standard distribution agreement has a term of one year and may be renewed by agreement. We set annual and monthly sales targets for our distributors based on their sales of similar HPC products in the location they are operating, their relevant experience, scale of their distribution networks and their historical sales record. We also set different levels of initial purchase and minimum purchase requirements for different distributors determined based on the location of the distributors and the consumer demands and affordability of the consumers in such locations.

We normally terminate or do not renew the distribution agreements with our distributors who failed to achieve their annual sales targets, sell counterfeit products or sell our products outside the defined district. The standard distribution agreement is terminable by either party upon giving of at least 10 days written notice to the other party. Upon termination of the distribution agreements, we may assist the terminated distributors to identify other suitable distributors to purchase their residual products. We have no contractual relationship with these terminated distributors nor the suitable distributors in respect of the sale and purchase of the residual products. The Group did not repurchase any of the residual products from our PRC distributors during the Track Record Period.

We offer discounts and/or rebates to our distributors who achieve certain percentages of their annual sales targets to enable them to gain a higher profit margins. For the years ended 31 December 2006, 2007 and 2008, the total discounts and rebates offered to our distributors amounted to RMB0.8 million, RMB8.3 million and RMB3.3 million, respectively. The fluctuation in the total discounts and/or rebates during the Track Record Period was due to the fluctuation in the number of distributors who were able to meet their annual sales targets and the different rates of discounts and/or rebates offered to our distributors.

We provide quality assurance to our distributors and generally allow them to return defective or unsold products. For details, please refer to "Sales Returns Policy" in this section of the prospectus.

#### **Our Retailers**

We have an established network of retailers in the PRC and Hong Kong. Our retailers consist of KA retailers and non-KA retailers who operate retail outlets in the PRC and Hong Kong selling mainly HPC products. The Directors confirmed that all of our retailers are independent third-parties.

We select and categorize our retailers based on their business scale, number of retail outlets, network coverage and their reputation. We generally set annual and monthly sales targets for our KA retailers based on their sales of similar HPC products in the location they are operating, their relevant experience, the number of their retail outlets and their historical sales records. For the years ended 31 December 2006, 2007 and 2008, we had 24, 36 and 46 KA retailers, respectively. The net increase of our new KA retailers in 2007 was 12 and in 2008 was 10. We maintain stable relationships with our KA retailers for an average of 3.6 years on a weighted average basis in terms of revenue in 2008.

We generally enter into merchandise contracts with our KA retailers for a term of one year which may be renewed by agreement. Some of our merchandise contracts specify annual target purchase

volumes and the prices for the products. Some of our merchandise contracts are framework contracts and do not contain any annual target purchase volumes nor prices for the products. The merchandise contracts we enter into usually specify terms such as delivery, payment, discounts and/or rebates, promotion and returns policy. We generally do not set any initial purchase requirements or minimum purchase requirements for our retailers.

We offer different rates of discounts and/or rebates to our KA retailers and some of our non-KA retailers based on their sales volumes to enable them to gain higher profit margins. For the years ended 31 December 2006, 2007 and 2008, the total discounts and rebates offered to our retailers amounted to RMB2.3 million, RMB3.8 million and RMB19.4 million, respectively. The fluctuation in the total discounts and/or rebates during the Track Record Period was due to the fluctuation in the number of retailers who were able to meet their target purchase volumes and the different rates of discounts and/or rebates offered to our retailers. We may assist our retailers to identify other suitable retailers to purchase the residual products upon termination of the merchandise agreements. We have no contractual relationship with these terminated retailers nor the suitable retailers in respect of the sale and purchase of the residual products. The Group did not re-purchase any of the residual products from our retailers during the Track Record Period.

As of the Latest Practicable Date, none of our Directors or their respective associates, and none of our existing Shareholders who (to the knowledge of our Directors) own more than five per cent of our issued share capital, have any interest in any of our retailers and we do not have any outstanding material disputes with our existing retailers.

Our five largest retailers contributed in aggregate less than 30% of our total revenue for the years ended 31 December 2006, 2007 and 2008.

### **Sales Outside the PRC**

We launched our products in Hong Kong, Macao and Singapore in 2008. We sell our products directly to our retailers in Hong Kong. We sell our products to a local distributor in each of Macao and Singapore, who then sell to their sub-distributors and/or their retailers. For Macao, we entered into an exclusive distribution agreement for a term of 18.5 months, renewable for a further two years. Our Macao distributor is an independent third-party which operates a consumer products distribution business. We did not set any initial purchase and minimum purchase requirements for our Macao distributor. This distribution agreement provides that we must purchase residual products at an agreed price upon termination of the distribution agreement. The Group did not re-purchase any of the residual products from our Macao distributor during the Track Record Period. For Singapore, we entered into an exclusive distribution agreement with our Singapore distributor for a term of three years, renewable for a further three years. Our Singapore distributor, Hannah Holdings Pte. Ltd., is an independent third-party which operates a consumer products distribution business. We set initial purchase and minimum purchase requirements based on its operational experience and the expected demand and purchasing power of consumers in Singapore. This distribution agreement provides that we may purchase residual products at an agreed upon discount from the original sale price, among others, upon termination of the distribution agreement. The Group did not re-purchase any of the residual products from our Singapore distributor during the Track Record Period.

We expect to launch our products in Malaysia, Myanmar and Thailand in 2009. We have engaged local distributors in each of Malaysia, Myanmar and Thailand, who are independent third-parties. We intend to continue to expand our business into other markets outside the PRC such as Taiwan.

### **Sales Team**

Our sales team largely consists of (i) sales representatives; and (ii) salespersons, also known as 霸王花 (Bawang Flowers).

Our sales representatives are primarily responsible for approaching potential distributors and retailers, obtaining sales orders from those retailers as well as assisting our distributors to expand the coverage of their distribution network. Sales representatives generally hold meetings with our distributors and retailers on a regular basis and gather information from them including sales records and levels of inventory, which allow us to monitor their performance. Some of the sales representatives were directly employed by us and some of them were engaged through an independent third-party employment agency.

Our salespersons are primarily responsible for assisting retailers in carrying out marketing activities at their retail outlets. They also implement marketing plans formulated by our sales representatives at selected locations from time to time. Our salespersons conduct inspections at the retail outlets on a regular basis to monitor retail prices of our products set by our retailers.

We began to engage full-time and part-time salespersons through an independent third-party employment agency in 2007. As of 31 December 2007, we had 6,219 salespersons, of which 4,405 were part-time contract personnel. In September 2008, we engaged a marketing and promotional company, an independent third-party, to provide us with marketing and promotional services in the PRC, including assigning its staff to implement our marketing and promotion plans at retail outlets designated by us. After we engaged the marketing and promotion company, we ceased to engage salespersons through the employment agency. For the year ended 31 December 2008, our aggregate expenditure on the employment agency and the marketing and promotion company was approximately RMB132.1 million. We believe that by engaging an employment agency and a marketing and promotion company as opposed to directly employing sales representatives and/or salespersons enables us to reduce administrative costs, minimize our effort in personnel management and focus our resources in coordinating our marketing and promotional activities with greater flexibility, which ultimately allows us to remain as scalable and competitive as possible.

### **Management of our Distributors and Retailers**

We collect and analyze data on the sales performance of our distributors and monitor their performance by requesting them to provide us with weekly sales reports. These reports contain information such as levels of inventory, sales volumes and a comparison of their purchase amounts with their annual sales targets. Our sales representatives conduct regular inspections on our distributors to ensure that they have sufficient levels of stocks and that our products are only sold to their sub-distributors and their retailers. Our salespersons also conduct inspections on the retailers managed by our distributors and/or their sub-distributors to help ensure that our products are ultimately sold to consumers.

We work closely with our retailers and some of them have granted us access to their real-time inventory and sales systems, which allows us to better monitor and obtain the latest information on our retailers in respect of sales volume and inventory levels at their retail outlets. In addition, our salespersons conduct on-site inspections at selected retail outlets on a daily basis and report back to our headquarters the daily sales and the inventory levels of those retail outlets to help ensure that they have sufficient levels of stocks and that our products are ultimately sold to consumers.

The Group has no ownership or management control over any of our distributors or retailers.

### **Pricing Policy**

We sell our products to our distributors and retailers at uniform discounts from our suggested retail prices. We have a suggested retail price policy that applies to all our distributors and retailers to help maintain brand image, consistent pricing and prevent price competition among our distributors and retailers. In determining our pricing strategies, we take into account market supply and demand, production cost and the prices of our competitors' products. We monitor our distributors through our sales representatives to help ensure that they sell our products to their sub-distributors and/or retailers

at our suggested retail prices and we assign our salespersons to monitor the retail prices of our products set by our retailers. We assess the information collected and engage in discussions with our distributors and retailers to ensure that they follow our pricing policy. We generally offer higher rates of discounts and/or rebates to our retailers who achieve certain percentage of their annual sales targets due to our ability to command higher selling prices by reducing intermediate distributors.

### **Payment Terms and Credit Control**

We generally require our distributors to make payment to us before our products are delivered to them. We may provide revolving credit limits to our distributors on a case-by-case basis, depending on their estimated future sales, business scale and relationship history with us. We require our distributors to make payment when their payables exceed the revolving credit limits. We periodically review and adjust this credit limit based on our on-going relationship with our distributors, their ability to meet sales targets and their purchasing levels.

We generally grant a 30 to 90 days credit period to our retailers and some of our distributors, depending on their credit history, historical sales performance, annual purchase and accounts payable settlement targets, and we normally receive payment from them within 60 days after placing order.

Our finance and sales departments carry out regular reconciliations of outstanding receivables balances. Our management team regularly considers whether bad debt provisions are necessary. We did not have any bad debts in 2006. For the years ended 31 December 2007 and 2008, the amount of bad debts written off were RMB2.1 million and RMB1.9 million, respectively.

### **Sales Returns Policy**

We generally permit our distributors to return defective products to us within one or three months from the delivery date of our products to their warehouses. We may allow our distributors to return unsold products to us within three or six months from the delivery date of our products to their warehouses at an agreed upon discount from the original sale price. We permit some of our retailers to return products due to quality defects and/or unsold products.

During the Track Record Period, we did not receive any material returns of unsold products from our distributors or retailers and we did not experience any material product returns or make any product recalls due to any quality defects, perceived product side effects or harmful chemicals or substances. We did not reduce our gross revenues to reflect any potential sales returns over the Track Record Period as we estimated that future returns by customers would not be material. We did not experience any material impairment to our inventories over the Track Record Period nor did we provide for any inventory impairment allowance during the Track Record Period due to sales returns. However, we did receive notifications from our distributors and retailers with respect to products with minor quality deviations that did not warrant a full exchange. These notifications did not result in any material disputes with our distributors or retailers during the Track Record Period. For further details regarding our revenue recognition policy for products subject to sales returns, please refer to the section headed "Financial Information – Revenue Recognition" of this prospectus.

### **MARKETING AND PROMOTION**

Our marketing and promotion strategy has been an important component of our success. We adopt a multi-faceted marketing strategy to market and promote our brands and products. Our dedicated marketing and promotion team is responsible for the design and promotion of our brands and products and the formulation of our marketing strategies. We have implemented our marketing strategies through various channels including (i) television commercials and sponsorship of television programs (ii) advertising in newspapers, magazines, the Internet, public transportation, billboards, banners and kiosks; (iii) selecting suitable celebrities as our brand ambassadors; (iv) organizing in-store marketing activities and roadshows; and (v) attending Chinese herbal-related conferences.



We place great emphasis on television commercials which are broadcast through various major television stations in the PRC, including China Central Television (CCTV), Guangzhou Television, Beijing Television and Shanghai Television, and outside the PRC, including Television Broadcasts Limited (TVB) and Asia Television Limited (ATV) in Hong Kong, and MediaCorp TV Singapore Pte Ltd. in Singapore. We strategically place our television commercials in different time slots to capture different consumer groups. We also sponsor television programs broadcast at prime times at selected television stations. We believe that this marketing strategy has a positive impact on the public image of our brands and products.

Since 2005, internationally renowned celebrity, Mr. Jackie Chan (成龍), who is known for, among other things, Chinese traditional martial arts, has been the image and brand ambassador for our 霸王 (Bawang) branded Chinese herbal shampoo and hair-care products. Our engagement of Mr. Jackie Chan (成龍) currently provides that he will continue to be the image and brand ambassador for our 霸王 (Bawang) branded Chinese herbal shampoo and hair-care products until 2012 and that such term can be extended subject to negotiation between the Group and Mr. Jackie Chan's (成龍) agent within three months prior to expiry of the current term. This engagement can be terminated if the Group fails to pay the service fee under such engagement.

We also selected Ms. Faye Wong (王菲), a renowned singer and actress in Asia, in 2009 as our image and brand ambassador for our 追風 (Royal Wind) branded Chinese herbal shampoo and hair-care products. Ms. Faye Wong (王菲) is also the image and brand ambassador of our new series of Chinese herbal skin-care products, which is expected to be launched in the PRC in the second half of 2009. Our engagement with Ms. Faye Wong (王菲) provides that she will continue to be the image and brand ambassador for our 追風 (Royal Wind) branded Chinese herbal shampoo and hair-care products and our new branded Chinese herbal skin-care products series until 2011 and such term can be extended subject to negotiation between the Group and Ms. Faye Wong's (王菲) agent on or about the expiry of the current engagement.

We have implemented strict requirements on our retailers with respect to the display and promotion of our products to ensure consistent brand recognition, the integrity of the image of our Group and satisfactory marketing results. We generally enter into product display agreements with our retailers with provisions to ensure compliance with our marketing strategies. We require our retailers to display our products according to our specifications and we assign salespersons to monitor the in-store display of our products at various retail outlets on a regular basis to help ensure that our retailers have followed our product display policy. Our distributors are required to procure their sub-distributors and retailers to follow our product display policy.

We often offer bundled packages with supplementary products to consumers. This marketing strategy allows consumers to experience some of our products which they may not have used before, which in turn attracts more consumers to purchase our products and increases our sales. We offer supplementary products which are compatible with the products purchased by consumers. For instance, a sample of our conditioner is included with purchases of our Chinese herbal shampoo.

We obtain market information by conducting in-store surveys on a regular basis, on average twice a month. In addition, we operate several customer service hotlines which allows our consumers to reflect their views on our products and services. We assess and analyze this information for the purpose of enhancing the quality of our products and services.

For the years ended 31 December 2006, 2007 and 2008, our total advertising and promotional expenditures amounted to approximately RMB84.8 million, RMB217.4 million and RMB339.0 million, respectively, which accounted for approximately 21.6%, 23.6% and 24.0% of our total revenue, respectively.



**Marketing and Promotional Activities**

We strategically organize our marketing and promotional activities to give us brand and product exposure to the general public. The highlights of our recent marketing and promotional events are as follows:

<u>Year</u>	<u>Events</u>	<u>Description</u>	<u>Pictures</u>
2005	Brand ambassador	We engaged Mr. Jackie Chan (成龍) as image and brand ambassador for our 霸王 (Bawang) branded Chinese herbal shampoo and hair-care products	
2005 – 2009	Television commercials and sponsorship of television programs	We produced a series of television commercials for our 霸王 (Bawang) brand with certain slogans, such as “國貨當自強, 洗髮用霸王” (“Domestic goods dominate; wash hair, use Bawang”), which were broadcast on various television channels in the PRC, Hong Kong and Singapore. We also sponsored various television programs	
2005 – 2009	Print media	<p>We advertised our brands and products in various PRC and Hong Kong newspapers and magazines, such as:</p> <ul style="list-style-type: none"> <li>• 消費日報 (Consumption Daily) (PRC)</li> <li>• 羊城晚報 (Yangcheng Evening News) (PRC)</li> <li>• 信息時報 (Information Times) (PRC)</li> <li>• 現代快報 (Xian Dai Kuai Bao) (PRC)</li> <li>• 廣州日報 (Guangzhou Daily) (PRC)</li> <li>• 消費者週刊 (Consumer Weekly Magazine) (PRC)</li> <li>• 家週刊 (Home Weekly Magazine) (PRC)</li> <li>• 美麗新時尚 (Modern Beauty) (PRC)</li> <li>• 東方日報 (Oriental Daily) (Hong Kong)</li> <li>• 太陽日報 (The Sun) (Hong Kong)</li> <li>• 蘋果日報 (Apple Daily) (Hong Kong)</li> </ul>	 

## BUSINESS

<u>Year</u>	<u>Events</u>	<u>Description</u>	<u>Pictures</u>
2005, 2007, 2009	Press conferences for our new brands and products	We organized press conferences to promote our new brands and products	
2007	Chinese herbal-related conferences and seminars	We held Chinese herbal-related conferences and seminars	
2007 – 2009	In-store promotional activities	We set up promotional counters in hypermarkets, supermarkets and chain stores at various locations in the PRC to market and sell our products	
2008 – 2009	Roadshows	We organized roadshows to promote our brands and products at various locations in the PRC	
2008	Sponsorship of various functions	We sponsored various functions, such as a charity concert hosted by Mr. Jackie Chan (成龍)	
2009	Brand ambassador	We engaged Ms. Faye Wong (王菲) as our brand ambassador for our 追風 (Royal Wind) branded Chinese herbal shampoo and hair-care products	

## RESEARCH AND DEVELOPMENT

Our research and development team focuses primarily on upgrading our existing products and developing new products by applying our extensive experience, know-how and technology. For the years ended 31 December 2006, 2007 and 2008, our research and development team comprised 14, 22 and 28 members, respectively.

A typical new product is developed as follows:



Our research and development team works closely with our marketing and promotion team to evaluate market trends and consumer preferences in order to determine a plan for our new product introductions.

Our product development process is market-oriented. We screen new projects by discussing ideas for new products based on the market research on consumer preferences to help ensure new products match consumer demand. Product samples are made after the underlying idea is approved. When the product samples have passed quality tests, trial products are produced at our production premises. These trial products are reviewed for possible commercial applications. We then offer trial products to consumers when they purchase our existing products. We obtain feedback from consumers on a regular basis to allow us to better understand their preferences and needs and upgrade our existing products and introduce new products to meet demand. After the trial period, we then formulate marketing strategies for the new products and proceed with mass production and product launch.

It usually takes 6 to 12 months from the time our research and development team begins discussion of new product ideas to the time we commence mass production of the new product. For the years ended 31 December 2006, 2007 and 2008, we developed and launched 18, 11 and 7 new products under our 霸王 (Bawang) brand, respectively.

## BUSINESS

Our cooperations with a number of universities and an association in the PRC began in 2005 and 2007, respectively. We cooperate with these universities and an association on a project by project basis. We work closely with the professors and research fellows of these universities, who specialize in botanical science and Chinese medicine, to develop new techniques and know-how, such as essence extraction, and we cooperate with an association which provides us with technical support in the production of our Chinese herbal shampoo. A research project generally takes an average of two years from its preparation stage to the endorsement of the research results by the relevant PRC authorities and institutions. The cooperation agreements entered into between us and the universities/association stipulated that (i) the costs of the research and development projects are either borne by the Group or shared between the Group and the universities/association; (ii) any intellectual property rights derived from the cooperations are either owned solely by the Group or jointly owned by the Group and the universities; and (iii) we are entitled to receive all the profits generated from these technical achievements. As of 31 December 2008, no intellectual property rights derived from our cooperation with these universities or association was registered.

The following awards/certificates were obtained through the efforts of our cooperation with one of the universities.

Year of grant	Award/Certificate	Awarding Body
2008	廣州市白雲區2006-2007年度科學技術進步獎(2006-2007 Scientific Technical Advancement of Guangzhou Baiyun District, Third Prize)	廣州市白雲區人民政府 (People's Government of Baiyun District, Guangzhou)
2008	廣州市科學技術成果 (Scientific Technical Achievement of Guangzhou)	廣州市科學技術局 (Science and Technology Bureau of Guangzhou)

Our total expenditure for research and development amounted to RMB3.8 million for the year ended 31 December 2008. We intend to continue to invest our resources in research and development. We plan to establish a new research and development center with advanced equipment and to expand our team of specialists. The construction of our new research and development center is expected to be completed in 2010.

### PRODUCTION PREMISES AND PRODUCTION CAPACITY

We manufacture all our products at our current production premises located in Baiyun District, Guangzhou, which we lease from Guangzhou Bawang.

The following table sets forth the number of production lines for our shampoo and hair-care products, skin-care products and Other Products, including average working hours, expected production capacity, actual production and utilization rate for the year indicated:

Type of Products	Year	Number of Production Lines	Average Working Hours per Day	Expected Production Capacity during the Year <sup>(1)</sup> (metric ton)	Actual Production during the Year (metric ton)	Utilization Rate
Shampoo and Hair-care Products	2008	11	20	50,000	35,000	70.0%
	2007	8	14	26,000	20,000	76.9%
	2006	7	8	12,000	9,000	75.0%
Skin-care Products and Other Products	2008	6	12	18,500	6,800	36.8%
	2007	5	8	4,500	2,515	55.9%
	2006	5	8	4,500	1,300	28.9%

Note:

(1) The expected production capacity during the year is calculated on the basis of 22 days per month and 12 months per year.

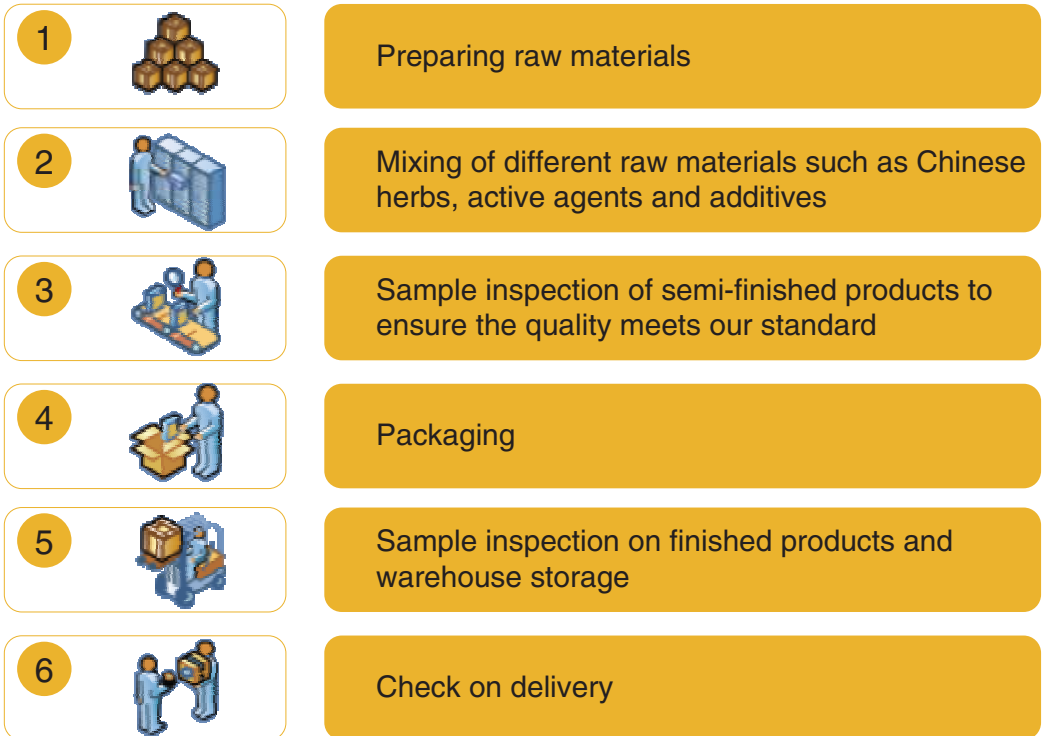
We generally operate our equipment in two shifts daily. We may operate in three shifts daily if necessary to meet increased order volume.

We believe that increasing our annual production capacity is essential to meet anticipated growing demand for our existing products and new products. We plan to lease a new production premises located in Baiyun District, Guangzhou with an estimated site area of approximately 75,000m<sup>2</sup> from Guangzhou Bawang. Guangzhou Bawang will be responsible for the construction costs of the new production premises and we will be responsible for the installation and fitting costs to ensure that the installation and fittings specifically meet our production requirements. Our new production premises will commence production upon completion of the first phase of construction, which is expected to be completed by the end of 2009 and we plan to install advanced equipment, increase our production lines and expand our labor scale. We estimate that our annual production capacity for shampoo and hair-care products will increase to approximately 100,000 metric tons (including 50,000 metric tons from our current production premises) by the end of 2009. All remaining phases of construction of the new production premises are expected to be completed by 2012. Our aggregate planned capacity for all HPC products is expected to be approximately 280,000 metric tons by 2012. We believe that the leasing of a new production premises will allow us to minimize investment in fixed assets and provide us with flexibility in our production scale if further expansion is required.

We will continue to lease our current production premises from Guangzhou Bawang until all phases of construction of the new production premises are completed by 2012. Pursuant to the production and office premises lease agreement and the supplemental agreement between the Group and Guangzhou Bawang, the Group can terminate the lease by giving one month's notice prior to the expiration of the term without paying any compensation.

**TYPICAL PRODUCTION PROCESS**

The following chart sets forth the typical production process for our shampoo and hair-care products:





We participate in every stage of our production process, including (i) procuring and inspecting raw materials and packaging materials; (ii) monitoring and inspecting the herbal essence extraction process conducted by an external extraction processor; (iii) preparing and mixing raw materials; (iv) inspecting semi-finished and finished products to ensure quality meets our standards; (v) packaging of our products; (vi) delivering our products to our distributors and retailers; and (vii) monitoring the services provided by our warehousing service providers.

The total production time for (i) our typical shampoo and hair-care products is approximately five to seven days; (ii) our skin-care products is approximately seven days; (iii) and our Other Products such as toothpaste, is approximately three days.

## **QUALITY CONTROL**

We place great emphasis on the quality of our products. We perform various quality inspection and testing procedures, including random sample testing at different stages of our production process, to ensure that our products comply with all applicable laws and regulations in the PRC as well as outside the PRC.

We obtained ISO9001:2000 certification for quality control of the design, development and production of our hair-care and skin-care products in 2007. These certifications demonstrate that our quality control system meets the standards of quality assurance and attest to the high quality of our products.

As of 31 December 2008, our quality control team comprised 18 members. Our quality control team closely monitors our production process, equipment and machinery. We have implemented a centralized system for procurement and inspection of raw materials and packaging materials to help ensure a stable high quality supply. We inspect our raw materials and packaging materials before their use in our production process. We perform routine product inspections on every batch of our products and sample testing to ensure consistent quality of our products, including semi-finished and finished products. Products in the warehouses are also subject to routine quality audits.

We implement a set of quantitative measurements on the quality and standards for our raw materials, in particular Chinese herbs. We collect samples of each type of Chinese herbs from our suppliers and identify one that meets our quality standards, known as our “Golden Sample”, by reference to its elements, origin and specie. We then set our quality standard by reference to quantitative measurements gathered from the “Golden Sample”. In order to maintain a consistently high quality of our Chinese herbs, we use the following instruments and techniques to analyze data collected from each batch of supplies and select only those which meet the quality standards of our “Golden Sample”:

- Gas Chromatograph – an instrument used for separating and analyzing compounds in which the mobile phase is gas. It is commonly used in testing the purity of substances, separating mixtures of components and identifying compounds.
- High Performance Liquid Chromatograph – an instrument used for separating and analyzing compounds in which the mobile phase is liquid. It is commonly used in testing the purity of substances, separating mixtures of components and identifying compounds.
- UV-Visible Spectrophotometer – an instrument to quantitatively determine sample concentrations by measuring the degree of light absorption at specified wavelength(s) using different sources of light, such as ultra-violet and visible light. It can also be used for recording transmission/absorption spectra of samples, which helps in identification of materials.

We examine our packaging materials for their appearance, specifications, endurance and compatibility with our products to ensure consistent high quality.



We assign our quality control staff to monitor and inspect the overall Chinese herbal essence extraction process conducted by an external extraction processor on a regular basis to help ensure that the Chinese herbal essence extracts are compatible with our product specifications and meet our quality standards. We follow our internal quality control standards in carrying out inspections at each stage of the Chinese herbal essence extraction process.

We perform regular equipment inspections in order to ensure our production lines perform at optimal levels. During the Track Record Period we did not experience any material or prolonged stoppages of our production due to equipment failure.

We have adopted a policy which requires all quality complaints to be dealt with promptly upon receipt. We have a dedicated team of after-sale service personnel to ensure prompt responses to customers' concerns and to provide them with solutions.

As of the Latest Practicable Date, we have not received any complaints about quality or safety issues from our consumers that would materially and adversely affect our business or our reputation.

## **RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS**

### **Raw Materials**

Our raw materials primarily consist of (i) Chinese herbs, such as polygonum (首烏), ginseng (人參), Chinese honeylocust (皂角), Chinese arborvitae (側柏葉) and euphorbia hirta (飛揚草); (ii) surfactant; (iii) coconut oil; and (iv) fragrance.

The following is a list of our key raw materials used in our key products and key product series:

#### **Key Raw Materials**

#### **Key Products/Key Product Series**

Polygonum (首烏)

- Anti-hair Loss and Regrow Shampoo
- Hair-blackening Shampoo
- Chinese Herbal Essence Shampoo Series
- Natural Herbal Shampoo Series
- Chinese Herbal Hair Conditioners
- Fruit Acid Series
- Chinese Recipe Series
- Chinese Herbal Anti-dandruff and Itch-relieving Shampoo

Ginseng (人參)

- Chinese Herbal Essence Shampoo Series
- Natural Herbal Shampoo Series
- Chinese Herbal Hair Conditioners
- Hair-blackening Shampoo
- Chinese Herbal Anti-dandruff and Itch-relieving Shampoo

Chinese Honeylocust (皂角)

- Chinese Herbal Essence Shampoo series
- Natural Herbal Shampoo Series
- Fruit Acid Series
- Chinese Recipe Series
- Chinese Herbal Anti-dandruff and Itch-relieving Shampoo

Chinese Arborvitae (側柏葉)

- Anti-hair Loss and Regrow Shampoo
- Chinese Herbal Hair Conditioners

Euphorbia Hirta (飛揚草)

- Natural Herbal Shampoo Series

Surfactant, Coconut Oil and Fragrance

- All shampoo and hair-care products and product series

We procure raw materials through our centralized procurement department. Except for the Chinese herbal essence extracts which we outsource to an external extraction processor, we directly purchase all our raw materials from our suppliers, who are independent third-parties. All our raw materials are readily available in the PRC, and we source most of our major raw materials from suppliers located in Guangdong province. All raw materials delivered by our suppliers to our warehouses are inspected before acceptance in accordance with our internal standards and those that fail to comply are returned to the suppliers. During the Track Record Period, we did not encounter any shortage of these raw materials.

For the years ended 31 December 2006, 2007 and 2008, the total costs of our raw materials amounted to RMB114.3 million, RMB281.7 million and RMB293.4 million, respectively, which accounted for 68.6%, 66.6% and 57.6% of our total cost of sales, respectively.

### **Chinese Herbal Essence Extracts**

The Chinese herbs that we purchase from our suppliers are required to undergo an essence extraction process before being used in our production. Prior to October 2007, we directly purchased Chinese herbal essence extracts from independent third-party suppliers in the PRC. Since then, we outsourced the Chinese herbal essence extraction process to 廣州市振隆藥業有限公司 (Guangzhou Zhenlong Pharmaceutical Co., Ltd.) ("**Guangzhou Zhenlong**"), an independent third-party engaged in the Chinese herbal essence extraction business in the PRC for over 20 years with an established customer base, including certain sizable state-owned enterprises in the PRC. We select our external extraction processor based on its product quality, production facilities, industry experience and whether it has obtained the requisite operating licenses. We assign our quality control staff to monitor and inspect the overall Chinese herbal essence extraction process to help ensure that the Chinese herbal essence extracts are compatible with our product specifications and meet our quality standards. Pursuant to the Chinese herbal essence extraction agreement entered into between us and Guangzhou Zhenlong, we agreed to supply raw materials, such as Chinese herbs, and certain technical know-how, developed and owned by us, to Guangzhou Zhenlong and Guangzhou Zhenlong agreed to perform the Chinese herbal essence extraction process with its own production facilities and labor force. Such agreement also includes a confidentiality clause which prohibits any leakage or unauthorized use of our technical know-how by Guangzhou Zhenlong. The agreement is for a term of 18 months commencing 1 October 2007 and was renewed for further term of one year. For the years ended 31 December 2007 and 2008, our total expenditures on outsourcing of Chinese herbal essence extraction were RMB0.03 million and RMB0.9 million, respectively. We believe that engaging an external extraction processor allows us to focus our resources on our core business and reduces capital investment and costs as compared to purchasing Chinese herbal essence extracts directly from suppliers. We also believe that alternative qualified herbal essence extraction processors are readily available in the market, and we may substitute this extraction processor with alternative extraction processors if it fails to meet our requirements.

### **Packaging Materials**

Our product packaging is important in maintaining our brand image. Our packaging materials primarily consist of paper boxes, plastic bottles and labels. We purchase our packaging materials from our suppliers in the PRC, except for some plastic bottles which we produce at our production premises. For the years ended 31 December 2006, 2007 and 2008, the costs of our packaging materials were RMB40.7 million, RMB112.5 million and RMB160.2 million, which accounted for 24.4%, 26.6% and 31.5% of our total cost of sales, respectively.

### **Suppliers**

We adopt a stringent selection process in choosing our suppliers. We investigate the market for suitable suppliers, then make a preliminary selection of candidates, who are then required to provide relevant production licenses and submit samples to us. After examination of the samples, we conduct site visits to evaluate the production facilities and quality control systems of the potential suppliers. We then make a final decision based on the site evaluation and contract terms of the supplier. We generally evaluate our suppliers once a year to ensure that we retain quality suppliers and discontinue the use of unqualified suppliers. We normally enter into fixed price supply agreements with our suppliers on an annual basis. Raw materials supplied by our suppliers are delivered to us at their own cost and risk.

We adopt a policy of having at least two suppliers for each principal raw material. If there is only one supplier for any type of raw material, then we strive to ensure that there are suitable alternative raw materials. We believe that this policy enables us to minimize the risk of supply shortage and allows us to benefit from the lower cost of supplies due to competition among the suppliers.

Our suppliers give us credit periods of 30 to 90 days in most cases. We generally pay within 30 days from the date of invoice. Our suppliers offer us discounts of 0.5% to 2.0% on our purchase prices for each order if we pay 30 days before the expiry of the credit term. Some suppliers offer us rebates of 1.0% to 3.0% of our annual purchases.

For the years ended 31 December 2006, 2007 and 2008, the aggregate purchases from our five largest suppliers amounted to RMB83.2 million, RMB151.9 million and RMB166.6 million, respectively, representing 41.7%, 43.1% and 35.7% of our total purchases of raw materials and packaging materials, respectively, and the aggregate purchases from our largest supplier of each year amounted to RMB26.6 million, RMB77.2 million and RMB79.0 million, respectively, representing 13.3%, 21.9% and 16.9% of our total purchases of raw materials and packaging materials, respectively.

None of our Directors or their associates, and none of our existing shareholders who (to the knowledge of our Directors) own more than five per cent of our issued share capital, have any interest in any of our five largest suppliers. As of the Latest Practicable Date, we do not have any outstanding material disputes with our existing suppliers.

## **INVENTORY AND WAREHOUSING**

Our inventories consist primarily of raw materials, packaging materials, semi-finished products and finished products. Our inventory levels vary according to the demand of our customers, sales and production plans and our logistics resources.

All our products are sold on a first-in-first-out basis. To minimize the risk of building up inventory, we regularly review our inventory levels. We also carry out physical stock counts from time to time to identify expired or damaged goods. During the Track Record Period, we did not experience any shortage of inventory.

We require our distributors and retailers to provide us with inventory and sales reports and we conduct random on-site inspections to track their inventory levels. In addition, some of our retailers have granted us access to their real-time online systems which allow us to monitor and obtain the latest information on their inventory levels of our products. The purpose of tracking their inventory levels is mainly to gather information and data regarding market acceptance of our products, the performance of our distributors and retailers and to ensure that our products meet consumer demand. This information also provides us with information regarding market recognition of our products in a particular district so that we can realign our marketing strategy, if necessary. This information also assists us, our distributors and retailers in determining the amount and frequency of delivery of our products and, if necessary, we can coordinate with our distributors and retailers to reallocate products to meet demand.

We store all our raw materials and some of our packaging materials, semi-finished goods and finished goods in our production premises and warehouses. We also engage independent third-party warehousing service providers in the PRC and Hong Kong, who have many years of experience in the warehousing industry, to store and manage parts of our inventory. We assign our staff to conduct site visits at the warehouses of the warehousing service providers on a regular basis to ensure that our inventories are properly and safely stored. For the years ended 31 December 2006, 2007 and 2008, 92.5%, 96.9% and 44.5% of our total inventories were stored at our production premises, respectively. The significant decrease in inventory stored at our production premises for the year ended 31 December 2008 was due to the outsourcing of our inventory storage to external warehousing service providers.

For the years ended 31 December 2006, 2007 and 2008, our inventory accounted for 32.1%, 8.1% and 8.4% of our total current assets, respectively, while our average inventory turnover days\* were 134, 54 and 34, respectively.

Note:

\* Calculated as the average of the beginning and ending inventory balances for the period, divided by the cost of sales for the period, multiplied by 365 days for a year in respect of periods indicated.

## **LOGISTICS**

We outsource our product transportation in the PRC to independent third-party logistics companies (except for the Pearl River Delta region which we deliver our products directly to our distributors and retailers using our own vehicles) who bear the risks associated with the delivery of our products. We engaged more than 10 external logistics companies to deliver our products to our distributors and retailers. All our products are delivered by truck from our production premises to the warehouses of our distributors and retailers in the PRC and we bear the entire delivery cost.

For distribution in Hong Kong, we deliver all our products by truck from our production premises to the warehouse of an independent third-party logistics company in Hong Kong, for which we bear the entire delivery cost, and the logistics company is responsible for the delivery of our products to our retailers in Hong Kong. For Singapore, our products are delivered from our production premises to the designated port in the PRC by truck for which we bear the cost of transportation. Our products are then delivered to our Singapore distributor by ship for which our Singapore distributor bears the transportation cost from the designated port in the PRC to its warehouses.

During the Track Record Period we did not experience any material disruption in the delivery of our products.

We have stringent criteria for the selection of our logistics companies, such as scale and track record. We require them to have a distribution network that is compatible with ours. We also evaluate the credentials and performance of our logistics companies on a monthly basis and terminate those with unsatisfactory services. This outsourcing arrangement allows us to reduce our capital investment and reduce the risk of liability for transportation accidents, delivery delays or loss.

As of Latest Practicable Date, we have not suffered any loss or paid any compensation as a result of delays in delivery or poor handling by the logistic companies.

## **INFORMATION TECHNOLOGY SYSTEM**

We acquired and installed an enterprise resource planning system, or ERP system, in the first half of 2008. The ERP system consists of six modules: procurement management, inventory management, sales management, accounts receivable, accounts payable, and general ledger.

The implementation of our ERP system enables us to standardize many aspects of our operations, including product codes and names, classification of our raw materials, raw material suppliers, customers, accounting systems and operational processes. The real-time ERP system provides us with the latest information to facilitate inventory control, order checking, customer services and financial conduct, thereby enhancing management and operational efficiency.

During the Track Record Period, we did not experience any material delivery delays or make any material defective/substandard product replacements due to the failure or breakdown of our information technology system.

## **CUSTOMER SUPPORT**

We are fully committed to maintaining a high standard customer management system and have obtained ISO9001: 2000 accreditation. We have also adopted a service standards manual which we require our staff to follow. The manual emphasizes our focus on excellent customer service.

We operate several customer service hotlines to handle general service inquiries. We also provide customer service and support through email communications.

Our customer management database system is an important tool in our management of customer relationships as well as customer data, including customers' personal information, purchase,

complaints, history and preference records. With the customer management database system, our call operators can access relevant information about the calling customer. We believe that our customer management database system provides a strong platform to analyze and utilize the data we collect, and helps in our efforts to enhance customer relationships and loyalty.

**COMPETITION**

We face competition from both international and domestic brands in the HPC product market in areas where we sell our products. Market participants in the HPC product market in the PRC generally compete in, among other things, brand recognition, business scale, research and development capability, market positioning, product variety, product quality, marketing and promotion, price and the ability to respond to customers' needs and preferences. Although our products might have limited operating history when compared to some of the long-standing and well-recognized international brands which have larger market shares, we have opened up and captured new market share through the unique positioning of our products, particularly positioning our own branded shampoo and hair-care products as Chinese herbal HPC products. As such, we believe that we are uniquely and well positioned in the shampoo and hair-care products market in the PRC.

Chinese consumers are becoming increasingly health conscious which has led to an increase in demand for Chinese herbal HPC products in recent years. This attracts more enterprises to enter into the Chinese herbal shampoo and hair-care products market. We believe that we have a competitive advantage over our direct competitors in the Chinese herbal shampoo and hair-care products market in the PRC through our leading market position, well-recognized brand, high-quality products, established nationwide network of distributors and retailers, strong and effective marketing and promotion strategies and our ability to respond to market needs in a timely manner.

**EMPLOYEES**

For the years ended 31 December 2006, 2007 and 2008, we had 890, 7,919 and 2,982 staff (including our employees and contract personnel), respectively, of which 874, 7,552 and 2,357 were contract personnel engaged through an independent third-party employment agency, respectively. The following table sets forth a breakdown of our employees by function as of 31 December 2008:

<u>Division</u>	<u>Number of Employees</u>
Sales and Marketing .....	267
Production and Logistics .....	135
Corporate Administration and Human Resources Management .....	79
Planning, Promotion and Publicity .....	60
Finance, Accounting and Internal Audit .....	56
Research and Development .....	28
<b>Total</b> .....	<b><u>625</u></b>

We periodically engage a substantial number of contract personnel through an employment agency on an as needed basis to help with our operations including production, research and development and marketing and promotional activities.



## BUSINESS

The following table sets forth a breakdown of the contract personnel we engaged through an employment agency during the Track Record Period by function:

<u>Division</u>	Number of Contract Personnel As of 31 December		
	2006	2007	2008
Sales and Marketing . . . . .	56	—	2
Production and Logistics . . . . .	23	—	3
Corporate Administration and Human Resources Management . . . . .	17	—	—
Planning, Promotion and Publicity . . . . .	31	—	—
Finance, Accounting and Internal Audit . . . . .	27	—	1
Research and Development . . . . .	12	—	—
Sales Representatives . . . . .	370	462	1,023
Salespersons – Full-time . . . . .	—	1,814	—
Salespersons – Part-time . . . . .	—	4,405	—
Production Workers . . . . .	338	871	1,328
<b>Total</b> . . . . .	<b>874</b>	<b>7,552</b>	<b>2,357</b>

Our total staff costs for the years ended 31 December 2006, 2007 and 2008 were RMB15.6 million, RMB79.2 million and RMB170.7 million, respectively, which accounted for 4.0%, 8.6% and 12.1% of our total revenue, respectively. During the Track Record Period, the increase in total staff costs was mainly due to the increased use of salespersons for promotional activities. We ceased to engage all salespersons through an employment agency after we engaged a marketing and promotion company in September 2008, which led to the significant decrease in the total number of contract personnel from 2007 to 2008.

We provide training to our staff on a regular basis to enhance their technical and product knowledge including industry quality standards, safety standards, customers sales skills and our sales model. We arrange for external trainers to provide training to our staff at our production premises and we also arrange for our staff to attend external training.

Our management actively participate in the evaluation of our staff and provide timely performance feedback. We adopt a performance-based incentive scheme for all our employees.

We contribute to social insurance scheme, housing fund and certain other employee benefits in accordance with PRC laws and regulations. According to a letter issued by the Bureau of Labor and Social Security of Baiyun District, Guangzhou (廣州市白雲區勞動和社會保障局) on 30 September 2008, there are no outstanding payments for social insurance due and we have complied with the labor law, regulations and policies.

As advised by our PRC legal advisor, the employment agency holds the relevant valid permits, and the agreements entered into between Bawang Guangzhou and the employment agency in relation to labor outsourcing are legal and effective. Pursuant to these agreements, the employment agency is responsible for the social insurance for its staff. According to the PRC Labor Contract Law, which became effective on 1 January 2008, we may be jointly liable if the employment agency fails to comply with all applicable labor laws and any relevant requirements relating to contract personnel as well as if it infringes the interest(s) of the contract personnel who provide services to us. However, if Bawang Guangzhou pays any social insurance for outsourced staff which the employment agency has failed to pay, Bawang Guangzhou shall have the rights to require the employment agency to assume the default liabilities in accordance with the agreements. According to the certificates issued by 從化社會保障基金管理中心 (Conghua Social Insurance Fund Management Centre) and 廣州市白雲區勞工及社會保障局 (Guangzhou Baiyun District Labor and Social Protection Bureau) both the employment agency and Bawang Guangzhou have paid the social insurances in accordance with the PRC laws and regulations.

We maintain good working relationships with our staff. We believe that our management policies, working environment and staff development opportunities and benefits have contributed to building good staff relations and retention. As of the Latest Practicable Date, we have not experienced any strikes or any labor disputes with our staff which have had a material effect on our business.

## **INTELLECTUAL PROPERTY**

Our intellectual property rights and domain names associated with our brands are of fundamental importance to our business since we rely to a significant extent on customers' recognition of our brands.

As of the Latest Practicable Date, we had 249 registered trademarks, 96 applications for trademark registration, three applications for patent registration, three registered designs and five applications for registered designs in the PRC and outside the PRC, of which 197 registered trademarks and 27 applications for trademark registration are pending transfer approval. From 2006 to 2008, a total of 214 registered trademarks, 90 applications for trademark registration, and two registered designs were assigned to Bawang Guangzhou pursuant to the trademark assignment agreements which subject to the completion of registration procedures.

We undertake a pro-active approach to manage our intellectual property portfolio. We undertake defensive registrations of our trademarks in additional categories where it is reasonably foreseeable that the trademark may be used for our products in the future. Registration of intellectual property rights is usually made by our agents. We take action immediately upon becoming aware of a potential infringement of our trademarks.

All formulae used in the production of our products were initially developed by Mr. Chen and Ms. Wan and were transferred to us at nil consideration. We have not obtained any patents for our formulae. We have not made any applications for patents for our formulae because patent registration in the PRC involves publication of the details of the formulae. We believe that such disclosure would provide our competitors with details of our formulae and would therefore enable them to imitate our production methods or refine their own production. We have a policy of strict segregation of duties among personnel involved at the different stages of our production process. We have entered into confidentiality agreements with our senior management and production personnel who have access to all or part of our formulae.

Bawang Guangzhou entered into trademark assignment agreements with Guangzhou Bawang on 22 June 2008 and 25 August 2008, respectively, pursuant to which Guangzhou Bawang agreed to assign all its 霸王 (Bawang) trademarks and trademark applications, which are registered or filed in the PRC, to Bawang Guangzhou at nil consideration and Bawang Guangzhou will, except for those 霸王 (Bawang) trademarks to be used in the Group's business, transfer or license back the registered 霸王 (Bawang) trademarks to Guangzhou Bawang, solely for the use in connection with the businesses of Guangzhou Bawang, which are non-HPC product related, on a royalty-free and perpetual basis. The trademark assignment agreements contain an indemnity provision whereby Guangzhou Bawang will indemnify Bawang Guangzhou for any quality problems in products or provision of services offered by Guangzhou Bawang as a result of using the 霸王 (Bawang) trademarks. In addition, we have the right to request Guangzhou Bawang to cease production of any of its products or the provision of any services provided by Guangzhou Bawang which uses our 霸王 (Bawang) trademarks.

As of Latest Practicable Date, we are not aware of any proceedings concerning, and are not aware of any material claims of infringement of, any intellectual property rights that may be threatened or pending, in which we may be involved whether as claimant or respondent.

For details of the intellectual property, please refer to the section headed "Further Information about Our Business – Our intellectual property rights" in Appendix V to this prospectus.

## **COUNTERFEIT PRODUCTS**

We are aware that certain counterfeit products bearing our 霸王 (Bawang) brand exist in the PRC market. We investigate counterfeit products in the market through our own department responsible for overseeing counterfeit products and infringement of our intellectual property and information provided by our distributors and retailers. Where appropriate, we inform and cooperate with relevant PRC government authorities, such as the local branch of the State Administration for Industry and Commerce and Public Security Bureau, of the existence of such counterfeit goods and request appropriate actions to be taken to protect us, including the confiscation or destruction of the counterfeit products, imposition of fines and commence proceedings against the counterfeiting party. We have also added counterfeit-prevention labels on our products and conducted on-site inspections at selected location. During the Track Record Period, the Group has made report to relevant PRC government authorities information on counterfeit products and appropriate action was taken by the relevant PRC government authorities, including confiscation of counterfeit products and imposition of fines. We will continue to take appropriate actions to defend our intellectual property and our products against possible infringements. The Directors confirmed that there was no material adverse impact by counterfeit products on the Group during the Track Record Period.

## **REAL ESTATE**

As of 30 April 2009, we leased one property (with an aggregate area of 16,735 m<sup>2</sup>) as our production premises and office premises from Guangzhou Bawang for a term of three years commencing 4 December 2007. This lease agreement was entered into on normal commercial terms through arms-length negotiations. Jones Lang LaSalle Sallmanns Limited, the independent property valuer of the Group, has reviewed our lease agreement and confirmed that the rent payable by us to the Guangzhou Bawang is in line with market rates. For details, please refer to the sections headed “Connected Transactions” in this prospectus and “Property Valuation” in Appendix III to this prospectus.

## **ENVIRONMENTAL MATTERS**

We seek to conduct our business without adversely affecting the environment. We have an environmental management policy covering all waste streams and production cycles. We obtained ISO14001:2004 environmental management certification in 2007 and we follow those guidelines and standards at our production premises. We strongly emphasize pollution management and control procedures, including plant operation and maintenance procedures and training of our personnel. Our personnel have extensive experience in the production HPC product industry in the PRC. They are familiar with industry standards and applicable laws and regulations in relation to environmental protection. Waste water is the primary waste from our production process. We segregate, measure and route our wastes, and we attempt to reduce, reuse or recycle such waste where practicable. Waste water is treated through an aerating process and sedimentation using the waste water processing equipment at our production premises before being discharged.

Our production is supervised by the provincial level of the PRC environmental protection authority. The authority has the power to take action against companies that fail to comply with applicable environmental regulations, including imposition of fines and revocation of licenses.

According to a letter issued by 廣州市白雲區環境保護局 (Environmental Protection Bureau of Baiyun District Guangzhou), the construction projects of Bawang Guangzhou have complied with the applicable PRC environmental protection laws and regulations. Bawang Guangzhou had no environmental pollution accident or any breach of environmental laws and regulations and there have been no fines imposed against Bawang Guangzhou by the authorities in charge of environmental protection since the establishment of Bawang Guangzhou.

The inspection report (雲監2009第30號) issued by 廣州市白雲區環境監測站 (Guangzhou Baiyun environmental inspection station) indicates that Bawang Guangzhou's production is in order, the

equipment of sewage protection works and the emission of liquid waste complies with government standards.

As advised by our PRC legal advisor, based on the above, the Group's production process has complied with the applicable PRC environmental laws, regulations and policies.

The Directors are of the view that the annual cost of compliance with applicable PRC environmental laws, regulations and policies was not material during the Track Record Period.

As of the Latest Practicable Date, we have not been subject to any fines or legal actions involving non-compliance with any applicable environmental regulations in the PRC and we did not have any threatened or pending action by any environmental regulatory authority in the PRC.

## **SAFETY**

To ensure that our production facilities comply with applicable safety standards, we have established a safety management team which carries out regular safety inspections on our production facilities. All equipment is required to be thoroughly tested and certified by the safety department before commencement of production. All operators of equipment are required to be well trained before they are allowed to operate equipment. Training sessions are provided on the required safety and hygiene standards. During the Track Record Period, we have not experienced any material or prolonged stoppages of production due to equipment failure and we have not experienced any major accidents during our production process. We are not aware that any toxic substances produced during the production process has caused personal injuries.

As of the Latest Practicable Date, our production facilities complied with all applicable laws, regulations and standards and we have obtained all necessary licenses in relation to safety.

## **INSURANCE**

We provide social insurance for our employees including insurance for retirement, unemployment, sickness and injury, as required by the PRC social security regulations. We believe that our insurance coverage is adequate for our operations. Since it is not required by PRC law, and consistent with the usual industry practice in the PRC, we do not carry any business interruption or product liability insurance or third-party liability insurance. We carry general product liability insurance in Hong Kong and Singapore to cover any claims for injury or damage caused by the use of our products or anyone coming into contact with our products. Please refer to the section headed "Risk Factors – Risk Relating to Our Business – Our insurance coverage may not completely cover the risks related to our business and operations" of this prospectus.

As of the Latest Practicable Date, we have not made or been the subject of any insurance claims which are material to the Group.

## **LEGAL PROCEEDINGS**

As of the Latest Practicable Date, we have no legal, administrative or arbitration proceedings, pending or threatened against us that had a material adverse effect on our financial condition or results of operations.