You should read the following discussion and analysis together with our consolidated audited financial statements and the notes thereto as of and for the years ended 31 December 2006, 2007 and 2008, included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Please see the section entitled "Risk Factors" in this prospectus.

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 as well as Other Products such as toothpaste and shower gels.

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.

For further information about our business and operations, please refer to the section headed "Business" of this prospectus.

The following table sets forth our revenue, net profits and percentages of increases for the periods indicated:

	Year ended 31 December			2007 vs 2006	2008 vs 2007	2006-2008 CAGR
	2006	2007	2008			
	(RMB'000)	(RMB'000)	(RMB'000)	%	%	%
Revenue	392,369	921,680	1,411,248	134.9%	53.1%	89.7%
Net profit	115,959	181,345	281,774	56.4%	55.4%	55.9%

Certain financial ratios

	At 31 December		
	2006	2007	2008
Current ratio[(1)]	2.0	1.4	1.9
Quick ratio[(2)]	1.4	1.3	1.7

	Year ended 31 December		
	2006	2007	2008
Return on assets[(3)]	53.9%	43.5%	47.2%
Return on equity[(4)]	102.4%	109.0%	115.3%

Notes:

(1) Current ratio is calculated by dividing the total current assets by the total current liabilities.

(2) Quick ratio is calculated by dividing the total current assets minus inventory by the total current liabilities.

(3) Return on assets equals net profit for each year divided by the average balance of total assets as of the beginning of each year and as of the end of each year.

(4) Return on equity equals net profit for each year divided by the average balance of total equity as of the beginning of each year and as of the end of each year.

Current Ratio

As of 31 December 2006, 2007 and 2008, our current ratio was approximately 2.0, 1.4 and 1.9, respectively. The decrease in our current ratio from 2.0 as of 31 December 2006 to 1.4 as of 31 December 2007 was primarily due to the relatively greater increase in trade and other payables and amounts due to related parties, partially offset by increases in: (i) amounts due from related parties, (ii) other investment in depositary products and (iii) cash and cash equivalents. The increase in the current ratio from 1.4 as of 31 December 2007 to 1.9 as of 31 December 2008 was primarily due to the significant increase in cash and cash equivalents as of 31 December 2008 as a result of the Company's revenue growth and sale of other investments in depositary products over the year while other current assets and total current liabilities remained relatively stable. Please see "Liquidity and Capital Resources" in this section for further details regarding our liquidity.

Quick Ratio

As of 31 December 2006, 2007 and 2008, our quick ratio was approximately 1.4, 1.3 and 1.7, respectively. The quick ratio remained relatively stable as of 31 December 2006 and 2007, and increased slightly to 1.7 as of 31 December 2008, primarily due to the significant increase in cash and cash equivalents for the same reasons noted above.

Return on Assets

For the years ended 31 December 2006, 2007 and 2008, our return on assets was 53.9%, 43.5% and 47.2%, respectively. The decrease in the return on assets from 53.9% in 2006 to 43.5% in 2007 was primarily attributable to an increase in our average balance of total assets. Although our net profit grew 56.4% from RMB116.0 million in 2006 to RMB181.3 million in 2007, our average balance of total assets increased by 93.5% from RMB215.2 million in 2006 to RMB416.4 million in 2007. The increase in the return on assets from 43.5% in 2007 to 47.2% in 2008 was mainly due to the increase in the net profit for the year. Our net profit increased 55.4% from RMB181.3 million in 2007 to RMB281.8 million in 2008 while our average balance of total assets increased by 43.4% over the same period. Please see "Results of Operations" in this section for further details on our profitability.

Return on Equity

For the years ended 31 December 2006, 2007 and 2008, our return on equity was 102.4%, 109.0% and 115.3%, respectively. The increase in the return on equity from 2006 to 2008 was primarily attributable to the increase in the net profit over the period. Please see "Results of Operations" in this section for further details on our profitability.

REORGANIZATION AND BASIS OF PRESENTATION

Pursuant to the Reorganization as detailed in the section headed "Company History and Reorganization" in this prospectus, the HPC product operation of Guangzhou Bawang was transferred to the companies now comprising our Group on 31 December 2007. As part of the Reorganization, certain assets and liabilities historically associated with the HPC product business of Guangzhou Bawang with an aggregate net book value of RMB29.9 million were not transferred to our Group and were retained by Guangzhou Bawang.

Our Controlling Shareholders controlled the operations of the HPC product business transferred to us before the Reorganization and continue to control the companies now comprising our Group after the Reorganization. Their control is not transitory and there was a continuation of the risks and benefits of the operations of the HPC product business to the Controlling Shareholders. As a result, the Reorganization is considered as a business combination under common control. The consolidated financial statements were prepared using merger accounting as if the HPC product business of Guangzhou Bawang had been operated by us and the current group structure had been in existence throughout the Track Record Period.

Accordingly, all the results related to the operations of the HPC product business of Guangzhou Bawang for the years ended 31 December 2006 and 2007 are consolidated. The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of our Group for the years ended 31 December 2006 and 2007 include the results of operations of the HPC product business of Guangzhou Bawang and the companies now comprising our Group. The consolidated income statements, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2008 only include the results of the companies comprising our Group.

The assets and liabilities which are related to the HPC product operation are consolidated using their existing book values from our Controlling Shareholders' perspective. The consolidated balance sheet of our Group as of 31 December 2006 has been prepared to present the state of affairs of the HPC product business of Guangzhou Bawang and the companies now comprising our Group as of that date. The Retained Assets retained by Guangzhou Bawang were treated as deemed appropriations to the equity holders of our Group on 31 December 2007 and have not been included in the consolidated balance sheets as of 31 December 2007 and 2008. The consolidated balance sheets as of 31 December 2007 and 2008 have been prepared to present the state of affairs of the companies now comprising our Group as of these dates.

All material intra-group transactions and balances have been eliminated on consolidation.

For more information about the Reorganization, please refer to the section headed "Company History and Reorganization" and "Appendix V – Statutory and General Information" of this prospectus.

MAJOR FACTORS AFFECTING OUR PERFORMANCE

Our business, financial position and results of operations, as well as the period-to-period comparability of our results of operations, are significantly affected by a number of factors, including, but not limited to:

Consumer Preferences and Consumption Patterns

Our results of operations are largely affected by consumer preferences for HPC products containing Chinese herbal ingredients and their continuing demand for our kind of products in the markets. We have benefited from an increasing demand for Chinese herbal HPC products in the PRC primarily due to the trends of improving per capita disposable income and greater awareness of healthy lifestyles in the PRC. We have strived to integrate a healthy life image into our products through our continuous marketing efforts, such as those by our brand ambassador, Mr. Jackie Chan. However, consumer preferences and consumption patterns constantly change. Demand for our products may be adversely affected if consumers' belief that Chinese herbal HPC products may improve their lifestyle and health is weakened, or if they no longer associate our products with a healthy lifestyle. In addition, new products from our competitors may cause a change in consumer preferences, leading to a change of consumption patterns towards other types of health-related products.

Nonetheless, we currently expect continued demand for our products. We expect the market for our HPC products, particularly our Chinese herbal shampoo and hair-care products, to continue to grow in the near future. Through better allocation and investment of our resources, we are dedicated to optimizing our brand and product mix to reach more consumers, maximize our growth potential in existing and new markets, increase our market share and strategically position ourselves to benefit from new trends in the HPC product industry.

Competition and Market Positioning

We strive to position our products and compete at the higher end of the market. Through our advertisements and in-store marketing activities targeting certain consumer groups, we convey the message that our 霸王 (Bawang) products present a sound and quality solution to meet the needs of today's consumers for a healthy lifestyle, which allows us to price our products at the higher end of the shampoo and hair-care markets in the PRC. Nonetheless, the pricing and demand for our products are also affected by the intensity of the competition we face as the HPC product industry is highly competitive in the PRC as well as globally. The pricing of our products takes into considerations such as market supply and demand, the costs relating to promoting our brands and products, the costs of raw and packaging materials and the product price of our competitors.

Brand and Product Mix

We offer an extensive range of HPC products to consumers. Changes in the mix of products we sell, whether by brand or by product, will impact our sales and profitability. Profitability might differ due to various reasons including the different pricing ability of various brands and products as well as the costs associated with developing, producing, launching and marketing new and existing brands and products.

Our products are currently classified into three categories: (i) shampoo and hair-care products, (ii) skin-care products and (iii) Other Products such as toothpastes, shower gels and liquid soaps. The following table presents a summary of our product portfolio as of 31 December 2008.

Product categories	Brands	Number of Key Product Series	Number of Key Products
Shampoo and hair-care products	霸王 (Bawang)	7	30
	丽涛 (Litao)	1	2
Skin-care products	雪美人(Smerry)	1	3
Other Products	霸王 (Bawang)	1	1
	丽涛 (Litao)	2	3

We introduced a new series of Chinese herbal anti-dandruff and itch-relieving shampoo and hair-care products under the 追風 (Royal Wind) brand in 2009. Changes to our brand and product sales mix can be due to various reasons such as a change in our promotional efforts for certain products, the launching of new brands or product series, or a change in consumer demand for certain brands or products. During the years ended 31 December 2006, 2007 and 2008, our shampoo and hair-care products sold under the 霸王 (Bawang) brand as a percentage of total sales was 88.5% in 2006, 94.5% in 2007 and 93.6% in 2008, due to our focused promotional efforts on this brand and as a result, our profitability is substantially related to 霸王 (Bawang) branded products. Over the same period, we have optimized our product mix by introducing new product series such as the Natural Herbal Shampoo series and discontinued others that were not as popular or otherwise not in line with our product strategy. Please refer to the section headed "Description of Selected Income Statement Line Items – Revenue – By Product Type" in this section for further information. We will continue to optimize our brand and product mix, through monitoring market trends, competition, consumer preferences and our sales.

Distribution and Retail Network

Our ability to increase our sales and profit is directly affected by the coverage of our distribution and retail network as well as our ability to continue to attract distributors and retailers to purchase our products. As of 31 December 2008, our products were sold in 24 provinces and four municipalities in the PRC as well as in Hong Kong, Macao and Singapore. The number of our distributors and retailers increased over the Track Record Period as we expanded our distribution and retail network. As of 31 December 2008, we had direct relationships with 567 distributors and 46 KA retailers in the PRC, Hong Kong, Macao and Singapore.

Our sales and profit growth will continue to depend on our ability to expand through finding suitable distributors and retailers and their respective ability to further promote and sell our products. In the process of our market expansion, our strategy has been to focus on sales to retailers in more developed regions, such as the Southern and Eastern regions in the PRC, and to focus on sales to distributors that have wide coverage in the developing regions in the PRC. We also select different distributors for different districts to take advantage of their knowledge of the local distribution network. Leveraging on our brand recognition and premium product quality, we also plan to expand our distribution network into specialty stores like drugstore chains, salons and beauty service centers. We anticipate that the number of distributors and retailers will continue to grow with our domestic and overseas expansion, launch of new products, and increasing brand recognition. During the years ended 31 December 2006, 2007 and 2008, sales to our distributors represented 82.3%, 84.6% and 83.8% of our total revenue, respectively. Sales to retailers correspondingly represented a smaller portion of our overall sales. The profit margins derived from sales to KA retailers tend to be higher due to our ability to command higher selling prices by reducing intermediate distributors. As such, we plan to continue to focus on our selling efforts towards retailers where appropriate in order to achieve higher profitability.

Marketing and Promotional Activities

Our results of operations depend to a large extent on how well we market our brands and products and how efficiently we expend our resources in our sales and marketing activities to effectively promote our products. Over the years ended 31 December 2006, 2007 and 2008, our advertising and promotional expenses, as a percentage of total revenue, were 21.6%, 23.6% and 24.0%, respectively. Efficient and effective promotion and marketing increases demand for our products, helping not only our sales volume but also our pricing ability. Over the Track Record Period, we extensively advertized our brands and products through television and print media. We also launched new products through publicity events and periodically promoted our brands and products at major sales locations through trained salespersons throughout the year. Through these continuous marketing and promotional activities, we believe we have conveyed the message that our products are of high quality and presents an excellent solution to meet today's consumer preferences for healthy lifestyles, which helps drive our sales and profitability. We have engaged in substantial marketing and promotional activities to raise awareness of our brands and products such as inviting well-known celebrities to be our brand ambassadors. Moreover, as part of our marketing activities, we sell bundled packages that include supplementary products, require retailers to display our products in a way that we believe better promotes our products and use packaging materials with our brand ambassador's images on them to seize consumer attention. We have historically conducted more marketing activities during our third and fourth financial quarters in order to attract shoppers during holiday periods such as during Mid-Autumn festival, the Chinese national holiday and the Christmas holiday shopping season. During these holiday seasons, we typically air and/or publish more advertisements, engage more sales representatives to introduce our brands and products, display our products more prominently and offer more bundled packages that include supplementary products. As a result, our sales during these quarters have historically been greater than the rest of the year. Our marketing and promotional efforts have also helped improve our market share, in terms of shampoo retail sales, in the PRC market, from 3.2% in 2006 to 7.6% in the first half of 2008, according to Euromonitor. Nonetheless, because market conditions and consumer preferences constantly change, our marketing and promotional activities may not necessarily be effective in the future and may also change as we continually strive to tailor our marketing strategy to market conditions.

Costs of Raw and Packaging Materials

Costs of raw and packaging materials represent a significant portion of our revenue. For each of the years ended 31 December 2006, 2007 and 2008, such costs represented 39.5%, 42.8% and 32.1%, respectively, of our revenue. As such, any significant fluctuation in the price of raw and packaging materials may have a significant impact on our profitability.

Our raw materials mainly include Chinese herbs, surfactant, coconut oil and fragrance. Packaging materials mainly include plastic bottles, paper boxes and labels. In recent years, we experienced price fluctuations for some raw and packaging materials due to various factors such as weather disruptions and increased demand for commodities. Nevertheless, we were able to partially offset the impact of price increases of raw and packaging materials since we purchased these materials in large quantities and as a result, we had bargaining power with our suppliers to obtain better prices. Most of the Chinese herbs we use are readily available from independent suppliers and prices had remained relatively stable during the Track Record Period.

During each of the years ended 31 December 2006, 2007 and 2008, we had not used any financial instruments to hedge against future price fluctuations of our raw and packaging materials nor do we plan to do so in the near future.

Taxation

Our future profits will be affected by changes in tax rates, particularly the applicable tax rates in the PRC as we carry out the majority of our business and derive most of our revenue and profits from the PRC.

We are subject to income taxes in the PRC, including: (i) enterprise income tax and (ii) withholding income tax. The PRC enterprise income tax is calculated by multiplying the taxable income of Guangzhou Bawang and Bawang Guangzhou, which is calculated based on the PRC accounting principles after making adjustments according to the relevant PRC tax regulations, by the applicable tax rate. The withholding income tax will be calculated as a percentage of the dividends derived from Bawang Guangzhou for profits earned after 1 January 2008.

We also started to sell our products in Hong Kong in August 2008 and have become subject to the Hong Kong Profits Tax at the rate of 16.5% for our assessable profits derived from our trading operations in Hong Kong. Any changes in the taxes applicable to our business in the PRC and Hong Kong or anywhere else we will have operations in the future may affect our income tax expenses and our profitability.

On 16 March 2007, the National People's Congress of the PRC promulgated the Enterprise Income Tax Law of the PRC, which came into effect on 1 January 2008. The implementation of the Enterprise Income Tax Law has an effect on the level of income tax that we pay and the preferential tax treatment that we are entitled to. According to the income tax law of the PRC in effect before 1 January 2008, foreign invested enterprises ("**FIEs**") which are manufacturers with more than ten years of operations are exempt from paying income tax for the first two years starting from the year when the FIEs begin to make a taxable profit after deducting any losses that may be carried over from previous years, and thereafter enjoy a preferential tax rate with a 50.0% reduction for the following three years. Under the

Enterprise Income Tax Law, the normal income tax rate of PRC business entities is reduced to 25.0%. It allows businesses that were entitled to an enterprise income tax rate lower than 25.0% before 1 January 2008 a five-year grace period to transition to the higher income tax rate of 25.0%.

Bawang Guangzhou qualified as manufacturing FIEs and therefore can enjoy such tax preferential treatment. For the years ended 31 December 2006 and 2007 and 2008, our effective tax rates were 1.6%, 0.4% and 18.3%, respectively. Our lower effective tax rates in 2006 and 2007 were mainly due to the enterprise income tax exemptions enjoyed by Bawang Guangzhou in these two years. Our effective tax rate in 2008 is higher because Bawang Guangzhou became subject to the preferential PRC enterprise income tax rate of 12.5% starting in 2008 and Bawang Hong Kong became subject to a PRC withholding income tax rate of 5.0%. After the expiration of the preferential tax rate applicable to Bawang Guangzhou, the PRC enterprise income tax rate will be 25.0% and the effective tax rate for the Group will thus become higher afterwards.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. The methods, estimates and judgments that we use in applying our accounting policies may have a significant impact on our results as reported in our consolidated financial statements included elsewhere in this prospectus. Some of the accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies in accordance with IFRSs that we believe are both important to the presentation of our financial results and involve the need to make estimates and judgments about the effect of matters that are inherently uncertain. We also have other policies that we consider to be significant accounting policies, which are set forth in detail in Note 1 to the Accountants' Report in Appendix I to this prospectus.

Revenue Recognition

We measure revenue from the sale of goods at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates and excluding value added tax or other sales taxes. We recognize revenue when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfers of risks and rewards vary depending on the individual terms of contract of sales. Usually transfer occurs when the product is received at the customer's warehouse. For sales that contain a right of return by a customer, we recognize revenue only if the amount of future returns can be reasonably estimated. We usually make such estimation based on our past experience of actual sales returns. We did not experience any material returns over the Track Record Period. Accordingly, no returns subsequent to the Track Record Period were estimated and offset against our revenue over the Track Record Period. Sale returns are generally offset against the revenue in the period such returns occur.

Property, plant and equipment

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment less their estimated residual value. Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no more than 20 years after the date of completion. The estimated useful lives of other property, plant and equipment are as follows:

- Machinery — 10 years
- Motor vehicles — 5-8 years
- Office equipment and others — 5 years

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified above. Depreciation methods, useful life and residual value are reassessed at the reporting date.

Inventories

We measure inventories at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In case of manufactured inventories and work in progress, cost includes an appropriate share of the production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Impairments

We calculate the impairment loss of our financial and non-financial assets based on our historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Our estimates and judgments are continually evaluated. In particular,

- the impairment loss of trade and other receivables is calculated as the difference between their carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.
- the impairment loss of other investments, classified as available for sale financial assets, is calculated as the difference between their carrying amount and the fair market value.
- the impairment loss of certain property, plant and equipment is calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the greater of its value in use and its fair value less cost to sell.
- the impairment loss of inventories is calculated as the difference between the carrying amount and the net realizable value. The net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Our estimates are based on readily available information in determining an amount that is reasonable approximation of these values or prices, as the case may be. It is difficult to precisely estimate the values or prices we use in our calculations. A change in estimate will increase or decrease the above impairment losses which may substantially affect our business, financial condition and result of operations in future years.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

Our revenue represents the sales value of products supplied to customers, after allowance for returns and trade discounts excluding value-added taxes and other sales taxes.

By Product Type

The following table sets forth the breakdown of our revenue by product categories for the periods indicated:

	Year ended 31 December					
	2006		2007		2008	
Revenue	Amount (RMB'000)	% of Total Revenue	Amount (RMB'000)	% of Total Revenue	Amount (RMB'000)	% of Total Revenue
Shampoo and hair-care products	362,522	92.4%	876,501	95.1%	1,334,142	94.5%
Skin-care products	8,210	2.1%	13,456	1.5%	7,871	0.6%
Other Products	21,637	5.5%	31,723	3.4%	69,235	4.9%
Total	**392,369**	**100.0%**	**921,680**	**100.0%**	**1,411,248**	**100.0%**

We adjust our brand and product portfolio based on information regarding market trends, competition, consumer preferences, sales performance and other data. Significant changes to our brands and products during the Track Record Period include:

- Contribution to overall sales from 霸王 (Bawang) branded shampoo and hair-care products increased from 88.5% in 2006 to 94.5% in 2007 and decreased slightly to 93.6% in 2008. This change primarily reflects our focus on the marketing and sales of such products. We plan to continue to focus our efforts on developing and marketing these products.
- Contribution to overall sales from 丽涛 (Litao) branded shampoo and hair-care products have correspondingly decreased from 3.9% in 2006 to 0.6% in 2007 but increased slightly to 0.9% in 2008. This change primarily reflects our focus on 霸王 (Bawang) branded products as noted above.
- As indicated in the table above, contribution to overall sales from our skin-care products (sold only through the 雪美人 (Smerry) brand) and Other Products decreased over 2006 and 2007 as we focused our resources on developing and marketing our 霸王 (Bawang) branded products. Nonetheless, contribution from these two categories increased slightly to 5.6% in 2008.

By Channel

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

	Year ended 31 December					
	2006		2007		2008	
Revenue	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%
Total	**392,369**	**100.0%**	**921,680**	**100.0%**	**1,411,248**	**100.0%**

We derive the majority of our revenue from our distributors, and to a lesser extent, from our retailers. For the years ended 31 December 2006, 2007 and 2008, our revenue derived through our distributors was RMB322.8 million, RMB779.5 million and RMB1,182.6 million or 82.3%, 84.6% and 83.8% of our total revenue, respectively. Selling products through our distributors enabled us to achieve growth in overall sales by leveraging the respective strengths and advantages of the distributors engaged under our distribution arrangement. We plan to continue to sell and distribute our products mainly through our distributors, particularly in the rural areas in the PRC.

We derived the remainder of our revenue from sales to retailers. The operating margins derived from sales to retailers are higher due to our ability to command higher selling prices by reducing intermediate distributors. As we gain more control of our distribution and retail network, we are able to sell more products to retailers directly. As such, we plan to continue our selling efforts in the sales to retailers to achieve an overall higher operating margin.

Cost of Sales

Our cost of sales includes costs of raw and packaging materials, labor and manufacturing overhead. Labor costs include wages and other compensation paid to production-line workers. Manufacturing overhead includes the cost of the outsourced production activities and the processing fees we pay to our sub-contractors and contract manufacturers, as well as operating lease expenses and utilities.

The following table sets forth the components of our cost of sales and as a percentage of revenue for the periods indicated:

	Year ended 31 December					
	2006		2007		2008	
Cost of Sales	Amount (RMB'000)	% of Total Revenue	Amount (RMB'000)	% of Total Revenue	Amount (RMB'000)	% of Total Revenue
Raw materials	114,288	29.1%	281,694	30.6%	293,358	20.8%
Packaging materials	40,666	10.4%	112,529	12.2%	160,241	11.4%
Direct labor cost	5,511	1.4%	16,004	1.7%	33,828	2.4%
Manufacturing overhead	6,078	1.5%	12,481	1.4%	21,897	1.5%
Total	**166,543**	**42.4%**	**422,708**	**45.9%**	**509,324**	**36.1%**

We experienced significant increase in cost of sales primarily as a result of increased sales and production volume during the Track Record Period. Our cost of sales was RMB166.5 million, RMB422.7 million and RMB509.3 million, representing 42.4%, 45.9% and 36.1% of our revenue for the years ended 31 December 2006, 2007 and 2008, respectively. The costs of raw and packaging materials constituted the two biggest components of total cost of sales and they together accounted for 93.0%, 93.2% and 89.1% of the total costs of sales for the years ended 31 December 2006, 2007 and 2008, respectively.

Our cost of raw materials as a percentage of revenue remained relatively stable in 2007 at 30.6%, as compared to 29.1% in 2006, but decreased significantly to 20.8% in 2008 primarily due to decrease in average unit costs of raw materials as we changed our product formulae in 2008.

Our cost of packaging materials as a percentage of revenue increased from 10.4% in 2006 to 12.2% in 2007 mainly due to our change of packaging designs for some of our products and use of higher quality packaging materials. The cost decreased slightly to 11.4% in 2008 due to slightly lower unit costs.

Other Revenue

Other revenue represents the return on our investment in depositary products with investments in a portfolio of debt and equity securities.

Other Net (Losses)/Income

Other net (losses)/income consists of the net amount after settling non-operating losses against non-operating income. For the year ended 31 December 2008, other net losses of RMB0.8 million primarily reflect our charity donation of RMB1.0 million and assets write-off of RMB0.2 million, partially offset by payments of RMB0.1 million we received from our distributor in Singapore for the sale of marketing materials such as posters, product displays and pamphlets and amounts paid by PRC distributors in breach of our sales contracts for making sales in unauthorized districts. The liquidated damages paid by the breaching distributors were RMB0.4 million. In addition to the damages paid, the breaching distributors have also been warned not to make further sales in any unauthorized districts or they will risk losing their distributorships. We further increased our effort in collecting information of distributors and send them notices in advance to prevent potential breaches of contracts. The other net losses for the years ended 31 December 2006 and 2007 were negligible.

Selling and Distribution Costs

Selling and distribution costs include primarily expenses incurred in our marketing and promotional activities, such as salaries for our marketing and sales employees, advertising and promotional expenses, including payments to our brand ambassador, transportation expenses and miscellaneous other expenses.

The following table sets forth the components of our selling and distribution costs and as percentage of revenue for the periods indicated:

	Year ended 31 December					
	2006		2007		2008	
Selling and Distribution Costs	**Amount (RMB'000)**	**% of Total Revenue**	**Amount (RMB'000)**	**% of Total Revenue**	**Amount (RMB'000)**	**% of Total Revenue**
Salary	7,235	1.8%	55,236	6.0%	119,679	8.5%
Advertising	64,779	16.5%	131,906	14.3%	159,451	11.3%
Promotion	20,008	5.1%	85,536	9.3%	179,551	12.7%
Transportation	1,204	0.3%	7,793	0.8%	21,716	1.5%
Other expenses	4,597	1.2%	12,257	1.4%	31,888	2.3%
Total	**97,823**	**24.9%**	**292,728**	**31.8%**	**512,285**	**36.3%**

Other expenses include social security payments for our sales employees, depreciation of our plant, property and equipment, meeting, office and travel expenses and miscellaneous small amounts incurred in the ordinary course of our selling and distribution activities.

Administrative Expenses

Administrative expenses include primarily salaries and other related benefits for our administrative staff, research and development expenses, Listing expenses we incurred in connection with the Global Offering and other general administrative costs arising from our daily operations.

The following table sets forth the amounts of the components of our administrative expenses and as a percentage of the revenue for the periods indicated:

	Year ended 31 December					
	2006		2007		2008	
Administrative Expenses	**Amount (RMB'000)**	**% of Total Revenue**	**Amount (RMB'000)**	**% of Total Revenue**	**Amount (RMB'000)**	**% of Total Revenue**
Salary	2,176	0.6%	6,448	0.7%	10,879	0.8%
Benefits	621	0.2%	3,005	0.3%	4,309	0.3%
Bad debt provision	800	0.2%	701	0.1%	538	0.0%
Research & development	—	—	—	—	3,812	0.3%
Listing expenses	—	—	—	—	14,425	1.0%
Others expenses	5,642	1.4%	13,371	1.5%	13,456	1.0%
Total	**9,239**	**2.4%**	**23,525**	**2.6%**	**47,419**	**3.4%**

Other expenses include social security payments for our administrative employees, depreciation of our office equipment, amortization of intangible assets, legal expenses and other administrative expenses.

Net Finance Income/(Costs)

Net finance income/(costs) consists of the net amount after settling finance income against finance costs. Finance income includes primarily interest income on deposits in banks and gains from the exchange of U.S. dollars into Renminbi for amounts payable in U.S. dollar to our brand ambassador. Finance costs comprise primarily foreign exchange losses we incurred upon conversion of foreign currencies from overseas capital injections.

Income Tax Expense

Our income tax expense includes provisions for the PRC enterprise income tax, current and deferred withholding income tax on the distributable earnings of our PRC operating subsidiary derived from the profits earned since 1 January 2008 and current Hong Kong Profits Tax.

Our effective tax rate for the years ended 31 December 2006, 2007 and 2008 were 1.6%, 0.4% and 18.3%, respectively. The lower effective tax rate in 2006 and 2007 was mainly due to the exemption from PRC enterprise income tax that Bawang Guangzhou enjoyed. Starting from 1 January 2008, our PRC operating subsidiary, Bawang Guangzhou, became subject to the preferential PRC enterprise income tax rate of 12.5%. Bawang Hong Kong became subject to PRC withholding income tax rate of 5.0% on the dividends derived from the profits of Bawang Guangzhou earned after 1 January 2008. Moreover, as we started to earn income in Hong Kong, our Hong Kong subsidiary Bawang Trading became subject to the Hong Kong Profits Tax at the rate of 16.5% for the 2008 to 2009 assessment period.

RESULTS OF OPERATIONS

Selected consolidated income statement information

Our selected consolidated income statement information for the years ended 31 December 2006, 2007 and 2008 as set forth below is derived from our financial statements included in Appendix I to this prospectus:

	Year ended 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	392,369	921,680	1,411,248
Cost of sales	(166,543)	(422,708)	(509,324)
Gross profit	225,826	498,972	901,924
Other revenue	—	—	484
Other net (losses)/income	(207)	(266)	(779)
Selling and distribution costs	(97,823)	(292,728)	(512,285)
Administrative expenses	(9,239)	(23,525)	(47,419)
Results from operating activities	118,557	182,453	341,925
Net finance income / (costs)	(664)	(436)	3,117
Income tax expenses	(1,934)	(672)	(63,268)
Profit for the year attributable to the equity holders of the company	**115,959**	**181,345**	**281,774**

REVIEW OF HISTORICAL OPERATING RESULTS

2008 Compared to 2007

Revenue

Our total revenue increased by RMB489.6 million, or 53.1% to RMB1,411.2 million in 2008 as compared to RMB921.7 million in 2007, primarily due to increased sales of RMB457.6 million from our shampoo and hair-care products and RMB37.5 million from our Other Products. We attribute our substantial sales growth in 2008 mainly to:

- further expanded distribution and retail network, particularly in Southern and Eastern regions;
- successful launch of our products in Hong Kong and Singapore;
- our increased marketing efforts and improved brand image from increasing television advertising particularly through local TV channels;
- increased sales from our newly introduced Natural Herbal Shampoo series of 霸王 (Bawang) branded products introduced in August 2007; and
- greater consumer demand for Chinese herbal products.

Shampoo and hair-care products. Revenue from our shampoo and hair-care products increased by RMB457.6 million, or 52.2%, to RMB1,334.1 million for 2008 as compared to 2007. Substantially all of our shampoo and hair-care product sales were attributed to 霸王 (Bawang) branded products. The overall increase was primarily due to our rapidly expanding distribution and retail network and strong marketing and promotional activities in the PRC. During the period, we promoted our 霸王 (Bawang) brand through advertisements of our brand ambassador by way of various media channels, including more local television channels. We also conducted more in-store marketing activities through improving product displays and selling bundled packages that include supplementary products to customers. In particular, the following product series helped fuel our growth during the period:

- Our Chinese Herbal Essence Shampoo series continued to sell well, growing 27.2% to RMB474.5 million, contributing 35.6% to our total sales in the shampoo and hair-care products category.
- Sales of our Anti-hair Loss and Regrow series increased 36.7% to RMB335.7 million, contributing 25.2% of total sales in this category.
- Sales of our Natural Herbal Shampoo series, launched in August 2007, grew substantially and reached RMB188.2 million during the period, contributing 14.1% of our total shampoo and hair-care sales.
- Sales of our Fruit Acid series grew to RMB162.0 million, contributing 12.1% of total sales in this category.

As part of our continued efforts to optimize our product mix, we discontinued our Anti-dandruff and Nutrition Treatment Oil shampoo products during the period.

Skin-care products. Revenue from skin-care products sold under the 雪美人 (Smerry) brand decreased by RMB5.6 million, or 41.5%, to RMB7.9 million in 2008, primarily due to (i) discontinuance of suntan and foundation products during our normal course of business to optimize our product portfolio and (ii) our strategic decision to expend more resources to sell shampoo and hair-care products under the 霸王 (Bawang) Brand.

Other Products. Revenue from Other Products increased by RMB37.5 million, or 118.3%, to RMB69.2 million as we intensified our marketing effort in this product category which mainly consists of toothpaste and shower gel products. In particular, our 丽涛 (Litao) branded shower gels gained popularity among our retail customers after we started to sell mega size packages. The increase in sales of shower gels in 2008 was RMB29.0 million. We also optimized our product mix and discontinued some less popular products such as soap and hand wash liquid.

As far as our personnel, assets and business are concerned, the earthquakes in Sichuan province in May 2008 did not result in serious interruptions to our production or service capabilities and we did not experience delays in delivery of our products to customers. Our Directors believe that the earthquakes in Sichuan province in May 2008 did not have a material impact on our production, sales or revenues.

Cost of sales

Our cost of sales increased by RMB86.6 million, or 20.5%, from RMB422.7 million in 2007 to RMB509.3 million in 2008. The overall increase in cost of sales was primarily due to increase in volume of production which was driven by higher demand for our products. For the year ended 31 December 2008, we incurred RMB0.9 million in expenses to extract Chinese herbal essence for our production. As a percentage of revenue, cost of sales decreased from 45.9% in 2007 to 36.1% in 2008 mainly due to decrease in unit costs of some raw and packaging materials and improvement of our product formulae which resulted in savings in the cost of raw and packaging materials.

Gross profit and gross profit margin

As a result of the foregoing factors, our gross profit increased by RMB403.0 million, or 80.8% to RMB901.9 million in 2008. Our gross profit margin increased from 54.1% in 2007 to 63.9% in 2008 mainly due to the decrease in the cost of raw materials as a percentage of revenue.

Other revenue

Other revenue of RMB0.5 million represented the return on our investments from the financial products offered by several licensed financial institutions in the PRC during the period, consisting of depositary products with investments in a portfolio of debt and equity securities.

Other net losses

We had other net losses of RMB0.8 million in 2008. Our other net losses were primarily due to our charity donation of RMB1.0 million and asset write-off of RMB0.2 million, which were partially offset by payments of RMB0.1 million from our distributor in Singapore for the marketing materials such as posters, product displays, and pamphlets and damages of RMB0.4 million paid by several customers for breaching distribution or purchase agreements.

Selling and distribution costs

Our selling and distribution costs increased by RMB219.6 million, or 75.0% to RMB512.3 million in 2008, primarily as a result of an increase of: RMB64.4 million in salary; RMB27.5 million in advertising expenses, including amounts paid for media advertising and to our brand ambassador; RMB94.0 million in promotion expenses, including expenses for promotional events and materials; RMB13.9 million in transportation expenses, RMB7.2 million in meeting expenses and RMB7.2 million in traveling expenses. The overall increase of selling and distribution costs in 2008 as compared to 2007 was primarily driven by the increase in sales.

Our selling and distribution costs as a percentage of revenue increased from 31.8% in 2007 to 36.3% in 2008, primarily due to the faster increase in salary, promotion expenses, transportation expenses, meeting and traveling expenses, as compared to the increase in revenue. Salary, promotion expenses and transportation expenses, as percentages of revenue, increased from 6.0%, 9.3% and 0.8% in 2007 to 8.5%, 12.7% and 1.5% in 2008, respectively. The salary increased faster than our revenue growth primarily because (i) we engaged 561 more contract personnel through an independent third-party employment agency as sales representatives; and (ii) we also engaged more contract personnel through an independent third-party employment agency as salespersons during the first nine months of 2008 until we ceased doing so after we engaged an independent third-party marketing and promotion company in September 2008. In 2008, the average wage of staff and workers in Guangzhou increased by approximately 12.6%. We incurred RMB132.1 million to the employment agency and the marketing and promotion company for sales representatives and sales persons to help us market and distribute our products in 2008. We increased the frequency of our in-store marketing and improved our product displays which led to greater promotion expenses. As we sold more products in regions more distant from our production facilities located in Guangzhou and gasoline price rose significantly, we further incurred more transportation expenses to deliver our products to those markets. Our meeting and traveling expenses also increased in line with our more frequent marketing and promotional activities. The increase of selling and distribution costs as a percentage of revenue, however, was partially offset by the decrease in advertising expenses as a percentage of revenue, which decreased from 14.3% in 2007 to 11.3% in 2008. This is primarily due to the fact that our product message was aired more often through the local or regional television channels, which generally charged less than national television channels.

Administrative expenses

Our administrative expenses increased by RMB23.9 million, or 101.6% to RMB47.4 million in 2008, primarily as a result of RMB14.4 million of Listing expenses, an increase of RMB6.7 million in salaries and benefits and RMB3.8 million of research and development expenses. As a percentage of revenue, our administrative expense increased from 2.6% in 2007 to 3.4% in 2008.

Results from operating activities

As a result of the foregoing factors, our results from operating activities increased by RMB159.5 million, or 87.4% to RMB341.9 million in 2008. Our operating profit margin increased from 19.8% in 2007 to 24.2% in 2008, primarily due to the decrease in costs of sales, which was partially offset by increase in selling and distribution costs.

Net finance income/(costs)

Our finance income increased by RMB1.7 million to RMB3.1 million in 2008, primarily due to an increase in interest income on bank deposits of RMB0.5 million, and recognition of a net foreign exchange gain of RMB1.2 million on advertising fees payable to our brand ambassador in U.S. dollars. There were no net foreign exchange losses in 2008. The net finance cost in 2007 was negligible.

Income tax expenses

Our income tax expense increased by RMB62.6 million from RMB0.7 million in 2007 to RMB63.3 million in 2008. The tax exemption enjoyed by our PRC operating subsidiary, Bawang Guangzhou expired in 2007. Starting from 1 January 2008, Bawang Guangzhou became subject to the preferential PRC enterprise income tax at the rate of 12.5% and Bawang Hong Kong became subject to a withholding income tax on the dividends derived from the profits of Bawang Guangzhou earned after 1 January 2008 at the rate of 5.0%. Bawang Trading is subject to the Hong Kong Profits Tax at the rate of 16.5% as we started to derive income from our sales in Hong Kong. As a result, our effective tax rate increased from 0.4% in 2007 to 18.3% in 2008.

Profit for the year

As a result of the forgoing factors, our net profit for the year increased by RMB100.4 million, or 55.4%, to RMB281.8 million in 2008. Our net profit margin slightly increased from 19.7% in 2007 to 20.0% in 2008 primarily due to the decrease in the costs of sales as a percentage of revenue, which was offset partially by increase in selling and distribution costs as a percentage of revenue and by the higher effective tax rate.

2007 Compared to 2006

Revenue

Our total revenue increased by RMB529.3 million, or 134.9%, to RMB921.7 million in 2007, due to increased sales of RMB514.0 million from our shampoo and hair-care products, RMB5.2 million from our skin-care products and RMB10.1 million from our Other Products. We attribute our substantial sales growth in 2007 mainly to:

- further expanded distribution and retail network particularly in the Southern region and Northern & Northeastern region;
- launch of the Natural Herbal Shampoo series of products under the 霸王 (Bawang) brand in August 2007;
- our increased marketing efforts and improved brand image with newly launched television commercials; and
- greater consumer demand for herbal products.

Shampoo and hair-care products. Revenue from our shampoo and hair-care products increased by RMB514.0 million, or 141.8% to RMB876.5 million in 2007. Substantially all of our shampoo and hair-care product sales were attributable to 霸王 (Bawang) branded products. As noted above, the overall increase in the period was primarily due to our continued rapid expansion of our distribution and retail network, and strong marketing and promotional activities in the PRC. Consumer awareness of our 霸王 (Bawang) brand and products continued to gain momentum in 2007 as (i) we aired more commercials with our brand ambassador throughout the PRC and (ii) our products became more widely available to consumers through increased retail locations selling our products in the PRC. The following product series particularly helped increase our sales in 2007:

- Sales of our Chinese Herbal Essence Shampoo series increased significantly by 239.5% to RMB373.0 million, contributing 42.6% to our total sales in the shampoo and hair-care products category.
- Sales of our Anti-hair Loss and Regrowing series also increased significantly by 143.2% to RMB245.5 million, contributing 28.0% of total sales in this category.
- Sales of our Fruit Acid series grew 36.4% to RMB94.2 million, contributing 10.7% of total sales in this category.

Skin-care products. Revenue from skin-care products sold under the 雪美人 (Smerry) brand experienced growth of RMB5.2 million, or 63.9%, to RMB13.5 million in 2007, as this brand continued to gain consumer acceptance and more products were sold through our sole retailer.

Other Products. Revenue from Other Products increased by RMB10.1 million, or 46.6%, to RMB31.7 million in 2007, primarily due to increase in sales of 霸王 (Bawang) branded toothpaste by RMB9.1 million, and 丽涛 (Litao) branded shower gel sales by RMB4.6 million, which were partially offset by a decrease in 丽涛 (Litao) branded toothpaste by RMB3.8 million.

Cost of sales

Our cost of sales increased by RMB256.2 million, or 153.8%, from RMB166.5 million in 2006 to RMB422.7 million in 2007, mainly due to an increase in cost of raw materials of RMB167.4 million and an increase cost of packaging materials of RMB71.9 million. The overall increase in cost of sales was primarily due to increased sales and production driven by higher demand for our products. As a percentage of revenue, cost of sales increased slightly from 42.4% in 2006 to 45.9% in 2007 mainly due to more sales of bundled packages that include supplementary products and rising market compensation rates for production-line employees. In 2007, salaries in Guangzhou generally increased by approximately 10%. The price of raw materials remained stable during the period.

Gross profit and gross profit margin

Our gross profit increased by RMB273.1 million, or 121.0%, to RMB499.0 million in 2007. Our gross profit margin decreased slightly from 57.6% in 2006 to 54.1% in 2007, primarily due to the increase in cost of sales as discussed above.

Other net losses

The change in the other net losses was negligible in 2007.

Selling and distribution costs

Our selling and distribution costs increased by RMB194.9 million, or 199.2%, to RMB292.7 million in 2007, primarily as result of an increase of RMB48.0 million in salary, RMB67.1 million in advertising expenses and RMB65.5 million in promotion expenses. The distribution expense increase in 2007 was primarily due to our expansion of our distribution and retail network into new markets and continuous marketing efforts to promote our brands through our brand ambassador, in-store promotions and increased product displays.

Our selling and distribution costs as a percentage of revenue increased from 24.9% in 2006 to 31.8% in 2007, primarily due to faster increases in salary and promotion expenses and advertising expenses, as compared to the increase in revenue. Salary and promotion expenses, as percentages of revenue, increased from 1.8% and 5.1% in 2006 to 6.0% and 9.3% in 2007, respectively. The salary increased faster than our revenue growth due to the rising market compensation rates for skilled salespersons and increased use of such salespersons in promotional activities. We engaged 92 more sales representatives and 6,219 more salespersons through an employment agency. We also conducted more promotional and advertising activities in developing markets to help increase consumer familiarity with our products and assisted our distributors and retailers in areas where profitability was typically lower. Such developing markets included the Southern, Northern and Northeastern regions. We made significant investment in building our distribution and retail network in the Eastern and Northern and Northwestern regions of the PRC. We engaged an employment agency and incurred RMB47.1 million to such agency for sales representatives and salespersons to help us market and distribute our products in 2007. We also increased the frequency of our promotional activities, offered more discounts and commissions in line with our business expansion to enhance their awareness of our brands and products.

Administrative expenses

Our administrative expenses increased by RMB14.3 million, or 154.6% to RMB23.5 million in 2007, primarily as result of an increase of RMB6.7 million in salaries and direct benefits. As a percentage of revenue, our administrative expense increased only slightly from 2.4% in 2006 to 2.6% in 2007. As of 31 December 2007, we had 128 more administrative staff members than 31 December 2006, all relating to the management and support of KA retailers due to increasing amount of administrative work resulted from the expansion of our business and as a result, our salaries and direct benefits increased by RMB6.7 million. The total number of our administrative staff members was 309 as of 31 December 2007, as compared to 181 as of 31 December 2006.

Results from operating activities

As a result of the foregoing factors, our results from operating activities increased by RMB63.9 million, or 53.9%, to RMB182.5 million in 2007. Our operating profit margin decreased from 30.2% in 2006 to 19.8% in 2007, primarily due to the increase in selling and distribution costs as a result of our increased expansion and marketing efforts as noted above.

Net finance income/(costs)

The change in net finance costs in 2007 was negligible.

Income tax expenses

Our income tax expense decreased from RMB1.9 million in 2006 to RMB0.7 million in 2007 primarily because we derived more profits from Bawang Guangzhou, which enjoyed a tax exemption in the PRC in both 2006 and 2007. Correspondingly, our effective tax rate decreased from 1.6% in 2006 to 0.4% in 2007.

Profit for the year

As a result of the forgoing factors, our profit for the year increased by RMB65.4 million, or 56.4%, to RMB181.3 million in 2007. Our net profit margin decreased from 29.6% in 2006 to 19.7% in 2007 primarily due to the increase in selling and distribution costs as a result of our continued expansion and marketing efforts.

LIQUIDITY AND CAPITAL RESOURCES

Prior to the Listing, we funded our operations principally from the proceeds from sales of our products and through capital injections by our Shareholders. Our principal liquidity and capital requirements relate to the following:

- costs and expenses related to the operation of our business and production facility, procurement of raw and packaging materials and building of inventory; and
- capital expenditures for the purchase of equipment, land lease and relocation of our production facility.

After the Listing, we expect to meet our liquidity needs from cash generated from our operations, and debt and equity financings, including the proceeds of the Global Offering.

The following table is a condensed summary of our consolidated cash flow statements for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Net cash generated from operating activities	54,799	213,162	251,451
Net cash generated from / (used in) investing activities	(3,321)	(111,114)	90,290
Net cash generated from / (used in) financing activities	(25,163)	(70,659)	(146,423)
Net increase in cash and cash equivalents	26,315	31,389	195,318
Cash and cash equivalents as of 1 January	**45,126**	**71,441**	**102,830**
Cash and cash equivalents as of period end	**71,441**	**102,830**	**298,148**

Net cash generated from operating activities

Over the Track Record Period, we derived our cash inflow from operating activities principally from the receipt of payments for the sale of our products. Our cash outflow from operating activities was principally for the purchase of raw and packaging materials, payment of employees' compensation and expenses for marketing and distributing our products.

For the year ended 31 December 2008, our net cash generated from operating activities was RMB251.5 million, primarily reflecting profit before tax of RMB345.0 million and an increase in amounts due to related parties of RMB12.6 million, which were partially offset by an increase in inventories of RMB10.0 million, a decrease in trade and other payables of RMB66.7 million and income tax paid of RMB43.2 million. The increase in amounts due to related parties was primarily a result from treasury arrangements between the entities wholly controlled by our Controlling Shareholders, where excessive cash and funding requirements are centrally considered and arranged, leading to certain related party balances with non-trade nature. The increase in inventories was primarily due to the greater production and stockpiling of finished products in preparation for the shutdown of production over the Chinese New Year holidays in January 2009. The decrease in trade and other payables was due to earlier payments to suppliers as a result of the PRC market practice to settle payments in the month ahead of the Chinese New Year holidays in January 2009 and our strong cash position in the period. We made a tax payment of RMB43.2 million to the PRC tax authorities due to expiration of the tax exemption for Bawang Guangzhou and its becoming subject to the preferential enterprise income tax of 12.5%.

For the year ended 31 December 2007, our net cash generated from operating activities was RMB213.2 million, primarily reflecting profit before tax of RMB182.0 million, a decrease in inventories of RMB41.7 million and an increase in trade and other payables of RMB148.3 million, which were partially offset by increases in trade and other receivables of RMB53.1 million and amounts due from related parties of RMB124.3 million. The decrease in inventories was primarily due to better inventory management leading to our ability to secure raw materials on a timely basis thereby reducing our need to store excess inventory. The increase in trade and other payables was in line with our business expansion and revenue growth. The increase in amounts due from related parties was primarily a result from the treasury arrangements between the entities wholly controlled by our Controlling Shareholders, where excess cash and funding requirements are centrally considered and arranged, leading to certain related party balances with non-trade nature. The increase in trade and other receivables was in line with our business expansion and revenue growth.

For the year ended 31 December 2006, our net cash generated from operating activities was RMB54.8 million, primarily reflecting profit before tax of RMB117.9 million and an increase in trade and other payables of RMB57.2 million, which were partially offset by increases in inventories of RMB45.2 million, trade and other receivables of RMB59.2 million and amounts due from related parties of RMB16.0 million. The increase in trade and other payables was in line with our business expansion and revenue growth. The increase in inventories was primarily due to increases in raw and packaging materials and finished goods at our production facility as we increased our volume of production in anticipation of increase in market demand. The increase in trade and other receivables was in line with our business expansion and revenue growth.

Net cash generated from/used in investing activities

Over the Track Record Period, we derived our cash inflows from investing activities principally from the interests on our bank deposits. Our cash used in investing activities was principally for acquisition of property, plant and equipment for our production and short-term investments made in financial products with a purpose to enhance returns on temporarily excessive cash.

For the year ended 31 December 2008, net cash generated from investing activities amounted to RMB90.3 million, primarily due to a net cash inflow of RMB100.5 million reflecting the return of a principal amount of RMB100.0 million and an income of RMB0.5 million from depositary products with investments in a portfolio of debt securities of low risk and high liquidity, partially offset by our investment of RMB12.2 million in acquiring machinery, logistical and electronic equipment for expanding our production lines. Due to our healthy operating cash flow in 2008, we had excess cash on hand, which we used for short-term investments with a purpose to enhance our returns. As such, for better cash management purpose, we purchased seven depositary products of different principal amounts at different times during the first nine months of 2008. These products were offered by Bank of China and China Merchants Bank. Each product consisted of a portfolio of low risk and highly liquid debt securities chosen by its offering bank, including but not limited to treasury bills, central bank bills, financial bonds, high-grade enterprise/corporate bonds, short-term financing bonds and certain high grade investment products traded in the interbank debt market. We purchased these products according to our acceptable levels of risk and return based on the offering materials by the respective offering banks. The selection of specific securities within portfolios was determined at the respective offering banks' discretion. The rate of return of these products was linked to indexes for the debt securities constituting the portfolio. The expected rate of return of these products in their respective purchase agreements ranged from 2.0% to 3.0% and the actual rate of return ranged from 1.97% to 2.96%. Their respective length of maturity varied from seven days to one month. The principal amounts of these depositary products ranged from RMB20.0 million to RMB200.0 million and were guaranteed according to their respective offering banks. Upon the maturity of these products, the principal, together with the return on the investment, would be deposited into our bank accounts. All of these depositary products were held to maturity and the last one was redeemed on 28 September 2008.

For the year ended 31 December 2008, the cumulative principal amount invested in the abovementioned depositary products was RMB410.0 million (reflecting the seven separate investments in 2008) and the cumulative principal amount of the depositary products redeemed was RMB510.0 million reflecting the corresponding redemption, including the principal amount of RMB100.0 million from the depositary product purchased in 2007 but redeemed in 2008. The net cash inflow from the return of the principal amount was therefore RMB100.0 million. We recognized income of RMB0.5 million from our investment for the year ended 31 December 2008, which was accounted for as Other Revenue in our Group's consolidated income statement for the same period.

We have not made any investments in depositary products since 30 September 2008 and have no plans to do so in the near future. After Listing, we plan to deposit any excess cash in our current or money market accounts with licensed financial institutions until it is expended for our operations.

For the year ended 31 December 2007, net cash used in investing activities amounted to RMB111.1 million, primarily due to our investment of RMB12.6 million in acquiring machinery, logistical and electronic equipment for expanding our production lines and our investment of RMB100.0 million in a depositary product with investments in a portfolio of debt securities of low risk and high liquidity, partially offset by RMB1.5 million in interest received on our bank deposits. Due to our healthy operating cash flow in 2007 we had excess cash on hand which we invested for a short term to enhance our returns. As such, for better cash management purpose, we made an investment of RMB100.0 million in 2007 in a depositary product offered by Bank of China. The product consisted of a portfolio of low risk and highly liquid debt securities chosen by Bank of China, including but not limited to treasury bills, central bank bills, financial bonds and certain high grade investment products traded in the interbank debt market. We purchased the product according to our acceptable levels of risk and return based on the offering materials by Bank of China. The selection of specific securities within the portfolio was determined by Bank of China. The rate of return of this product was linked to the indexes for the debt securities constituting the portfolio. The expected rate of return of this product in the purchase agreement was 2.0% and the actual rate of return of this product was 1.97% and its length of maturity was one month. According to Bank of China, the return of the principal amount would be guaranteed. This depositary product was held to maturity and redeemed on 25 January 2008. The income from our investment in this depositary product was recognized and accounted for as Other Revenue in our consolidated income statement in 2008.

For the year ended 31 December 2006, net cash used in investing activities amounted to RMB3.3 million, which was primarily due to our investment of RMB3.9 million in acquiring machinery, logistical and electronic equipment for expanding our production lines, partially offset by interests of RMB0.5 million we received on our bank deposits.

Net cash generated from / used in financing activities

Over the Track Record Period, we derived our cash inflows from financing activities principally from the capital contributions from our Controlling Shareholders. Our cash outflows in financing activities were principally from the cash distributions and deemed distributions to equity owners in connection with the Reorganization and dividends paid to our shareholders.

For the year ended 31 December 2008, we had a net cash outflow of RMB146.4 million, which was due to payment of dividends of the same amount to our shareholders in May 2008.

For the year ended 31 December 2007, we had a net cash outflow of RMB70.7 million, which was primarily due to special dividend payment to shareholders in the amount of RMB114.9 million prior to the completion of the Reorganization and a cash distribution of RMB26.1 million to equity owners upon the Reorganization. This was partially offset by capital contribution of RMB71.9 million from our Controlling Shareholders during the year. The cash distribution was made for the purpose of separating business activities conducted by our Group from those by our Controlling Shareholders under the name or for the benefit of entities not within our Group. See "Accountants' Report – Section A" in Appendix I to this prospectus.

For the year ended 31 December 2006, we had a net cash outflow used in financing activities of RMB25.2 million. The net cash outflow was primarily due to the payments of RMB95.8 million in connection with the assets and liabilities not related to our HPC product business being carved out partially offset by the capital contribution of RMB70.6 million from our Controlling Shareholders.

Inventory

Our inventory comprises raw materials, work in progress, finished goods and packaging materials for our products. The value of our inventory accounted for 32.1%, 8.1% and 8.4% of our total current assets as of 31 December 2006, 2007 and 2008, respectively.

The following table sets forth our inventory positions for the periods indicated:

	At 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Raw materials	45,913	3,760	4,194
Work in progress	—	3,077	4,500
Finished goods	27,236	26,108	32,164
Packaging materials	10,524	9,038	11,134
Total	**83,673**	**41,983**	**51,992**

In 2007, our inventory decreased by approximately 49.8%, from RMB83.7 million as of 31 December 2006 to RMB42.0 million as of 31 December 2007, primarily due to an decrease of RMB42.2 million in raw materials. Our inventory management system was more effective and we were able to optimize our inventories by securing timely supplies for our production. We did not need to store large quantities of raw materials at our production facility as we carefully selected a group of reliable suppliers who were able to make prompt deliveries of quality raw materials after we placed purchase orders. The prompt and secured supplies of raw materials gave us the flexibility to place smaller orders at higher frequencies to adjust to our changing production needs, leading to a smaller amount of raw materials stored at our production facility.

In 2008, our inventory increased by approximately 23.8%, from RMB42.0 million as of 31 December 2007 to RMB52.0 million as of 31 December 2008, primarily due to an increase of RMB6.1 million in finished goods and RMB2.1 million in packaging materials. The increases were primarily due to the greater production and stockpiling of finished products in preparation for the shutdown of production over the Chinese New Year holidays in January 2009.

As of 30 April 2009, being the most recent practicable date such information is available to us, raw materials of RMB3.7 million and packaging materials of RMB9.2 million had been used in production, work in progress of RMB4.5 million had been completed and finished goods of RMB27.9 million had been sold to our customers.

We continued our successful practice of inventory management. We further implemented an ERP system to better monitor our inventory, match purchase orders with our production schedules and supplies of raw and packaging materials in order to minimize inventory levels.

We did not experience any material impairment to our inventory, such as from slow moving or otherwise obsolete inventory, over the Track Record Period and thus did not provide for any inventory impairment allowance during the Track Record Period.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
Average inventory turnover days*	134	54	34

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.

The average inventory turnover days decreased from 134 days in 2006 to 54 days in 2007, primarily as a result of the rapidly growing market demand for our products that significantly lowered our inventory levels and better inventory control of our raw and packaging materials. We further benefited from faster deliveries of raw and packaging materials by our suppliers, who undertook to fulfil our orders within a shorter lead time. As such, we no longer needed to store a large quantities of raw and packaging materials thereby lowering our inventory levels. Average inventory turnover days further decreased to 34 days in 2008 as we gained a better understanding of market demand and made better estimates to match our purchase orders with production and sales. The lower average turnover days in 2008 was further attributable to our newly-installed ERP system, which provides us with instant information about purchases, production schedules and supplies of raw and packaging materials and facilitated our decision-making process by providing us with quick access to various data and easy formulation of operating models.

Trade and Other Receivables

Trade Receivables

Our trade receivables represent primarily the balances due from our distributors and retailers, to which certain terms of credit are offered, in the ordinary course of business.

The following table sets forth our trade and other receivables at the indicated balance sheet dates:

	At 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Trade receivables	59,835	89,984	101,773

In 2007, our trade receivables increased by RMB30.1 million, or 50.4%, to RMB90.0 million as of 31 December 2007, primarily due to our further expansion of our distribution and retail network and further increase in our products delivered to more retailers and distributors on credit terms. The strong sales of our products enabled us to select customers with better payment ability and we received more payments before or upon delivery of our products. As a result, our trade receivables increased at a lower rate than our revenue in 2007.

In 2008, our trade receivables increased to RMB101.8 million as of 31 December 2008, primarily due to our increased sales to retail and distributor customers, which usually receive a credit term of 30 to 90 days from us. As of 30 April 2009, being the most recent practicable date such information is available to us, we had received RMB89.2 million in payments from our customers.

As of 30 April 2009, most of the trade receivables that remained outstanding were still within their respective credit terms. Based on these customers' payment history and financial condition, we believe that the outstanding amounts will be paid in the due course of our business.

The following table sets forth the average trade receivable turnover days for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
Average net trade receivable turnover days*	35	30	25

Note:
* Calculated as the average of the beginning and ending net trade receivable balances for the period, divided by revenue for the period, multiplied by 365 days for a year in respect of periods indicated.

The average net trade receivable turnover days decreased from 35 days in 2006 to 30 days in 2007 and 25 days in 2008, primarily due to our effective credit control and careful selection of customers with better payment ability. As the consumer demand for our products grew substantially during the same period, more retailers and distributors approached us to purchase our products providing us with the flexibility to select more financially strong customers. The customers receiving credit from us were able to make faster payments as they derived better cash flows from stronger sales. We obtained more efficient credit control of our customers through establishing a credit history and increased business dealings with them. We were able to select customers with better payment ability and received a higher percentage of payments within a shorter period after delivery of our products as our products became increasingly in short supply.

The following table sets forth a summary of the age of our trade receivables by due date for the periods indicated:

	At 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Current	32,941	75,841	72,450
Less than 3 months past due	22,839	7,190	27,096
3 to 6 months past due	4,064	2,188	2,227
More than 6 months but less than 12 months past due	1,452	4,422	101
More than 12 months but less than 24 months past due	1,392	1,844	—
Gross trade receivables	**62,688**	**91,485**	**101,874**
Less: impairment loss for doubtful debts	(2,853)	(1,501)	(101)
Net trade receivables	**59,835**	**89,984**	**101,773**

Our customers primarily include distributors and retailers. As of 31 December 2006, 2007 and 2008, the total number of our distributors was 374, 530 and 567, respectively, and the total number of our retailers was 24, 36 and 46, respectively.

We establish a revolving credit limit and/or credit term ranging from 30 to 90 days for each customer, which are the maximum open amount and/or credit term without requiring approval from our Board. We review these limits annually and customers that fail to meet our benchmark creditworthiness may only trade with us on a prepayment basis. We do not collect collateral in respect of trade and other receivables. We generally invoice our retail customers upon each shipment of our products. Our retail customers are usually required to make payment to us within 60 days after inspection and acceptance of our products.

The increase in trade receivables during the Track Record Period was in line with our business growth and the trade receivables due within three month constituted 89.0%, 90.7% and 97.7% of gross trade receivables as of 31 December 2006 and 2007 and 2008, respectively.

The impairment loss for doubtful debts decreased from 4.6% of gross receivables as of 31 December 2006 to 1.6% as of 31 December 2007 and 0.1% as of 31 December 2008, due to our effective credit control and careful selection of customers with better payment ability. Our impairment loss for doubtful debts mainly reflects provisions for losses resulting from the inability of various smaller customers to pay us in full. Based on our experience, we believe that no further impairment allowance is necessary in respect of remaining trade receivables. All our customers have frequent transactions with us and maintained a good track record with us.

Other Receivables

The following table sets forth our other receivables at the indicated balance sheet dates:

	At 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Prepayment for purchase of raw materials	6,093	9,472	1,004
Prepaid advertising fee	21,745	40,307	26,956
Other receivables	1,155	1,441	6,762
Total	**28,993**	**51,220**	**34,722**

Our prepaid advertising fee comprises prepayments to television stations, media companies and brand ambassador. During the year ended 31 December 2007, our prepayment for purchase of raw materials and prepaid advertising fees increased in line with our business expansion and sales of products. Our prepayment for purchase of raw materials decreased by RMB8.5 million to RMB1.0 million as of 31 December 2008 because of the shutdown of production due to the Chinese New Year holidays in January 2009. Our prepaid advertising balance decreased to RMB27.0 million as of 31 December 2008 as compared to RMB40.3 million as of 31 December 2007 mainly because (i) less prepayment was made to some television stations due to our improved business relationships with and stronger bargaining power over these stations as a result of our increased volume of business; and (ii) less prepayment was made to our brand ambassador due to pre-existing payment arrangements as well as the amortization of the prepayments to our brand ambassador in the previous year. Other receivables comprise tax recoverable and prepayments to marketing and promotion service companies and utilities companies. As of 31 December 2008, our prepayment for purchase of raw materials and prepaid advertising fee were RMB1.0 million and RMB27.0 million, respectively, and as of 30 April 2009, RMB1.0 million of the prepayment for raw materials and RMB14.8 million of the prepaid advertising fees had been expensed, respectively.

Trade and Other Payables

Trade Payables

Our trade payables are generated from the purchase from our suppliers of raw and packaging materials and processing fees payable to third-party contractors relating to outsourced work.

The following table sets forth our trade payables at the indicated balance sheet dates:

	At 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Trade payables	38,831	114,957	60,754

In 2007, our trade payables increased by RMB76.1 million, or 196.0%, to RMB115.0 million as of 31 December 2007, primarily due to increased purchases of raw materials to meet increased sales. Our trade payable grew at a faster rate than the cost of sales during the same period mainly due to our increased purchases based on greater credit granted by our suppliers resulted from our stronger bargaining power from increased purchases. Towards the end of 2007, we placed orders for more raw and packaging materials in anticipation of the rapid sales growth in 2008, which resulted in higher amounts of trade payables.

As of 31 December 2008, our trade payables decreased to RMB60.8 million as we paid off a higher amount of payables as a result of the PRC market practice to settle payments in the month ahead of the Chinese New Year holidays in January 2009 and our strong cash position in the period. We derived strong cash flow from our operating activities and relied to a less extent on the credit from our suppliers. As of 30 April 2009, payments in the aggregate amount of RMB60.0 million had been made to our suppliers in connection therewith.

The following table sets forth our average trade payable turnover days for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
Average trade payable turnover days*	57	66	63

Note:

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

The following table sets forth a summary of the age of our trade payables for the periods indicated:

	At 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Due within one month or on demand	6,752	82,229	39,483
Due after one month but within 3 months	32,079	32,728	21,271
Total	**38,831**	**114,957**	**60,754**

The average trade payable turnover days in 2006 was approximately 57 days. The average trade payables turnover days increased to 66 days in 2007 and 63 days in 2008, as our business grew substantially providing us with greater flexibility to negotiate with our suppliers for longer credit terms based on our past good credit history and large purchase volume. We are usually allowed 30 to 90 days' credit according to our supply agreements or make payments on demand where there is no such agreement. We usually settle payment on a monthly basis. As of 31 December 2007, the trade payables due within one month or on demand increased to RMB82.2 million in line with our business expansion and revenue growth. As of 31 December 2008, the trade payables due within one month or on demand decreased to RMB39.5 million because we paid a large portion of our payables before the year end with excess cash on hand and as a result of the PRC market practice to settle payments in the month ahead of the coming Chinese New Year holidays, which came in January 2009. In general, we try to settle payments within the discount window before the expiry of the credit term. We did not receive any discount during the years ended 31 December 2006 and 2007. For the year ended 31 December 2008, the amount of discounts we received from our suppliers was RMB0.4 million. As of 30 April 2009, being the most recent practicable date such information is available to us, we had paid all our payables before expiration of our credit terms and there were no trade payables that had remained unpaid for more than 90 days.

Other Payables

The following table sets forth our trade and other payables at the indicated balance sheet dates:

	At 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Receipts in advance	38,854	54,939	41,669
Payable to advertising agents	1,520	1,052	5,578
Promotion fee payable	4,553	29,131	20,663
Accrued payroll	2,162	11,397	9,848
Others payables and accruals	8,134	27,235	33,485
Total	**55,223**	**123,754**	**111,243**

Other payables include the payments we received from our customers prior to delivery of our products, amounts payable to our advertising agents, fees payable to our customers or agents for displays and promotional activities, wages and benefits payable to our salespersons and other payables and accruals. Other payables and accruals primarily consist of value-added and other taxes and accrued sales rebates to distributors and retailers. As of 31 December 2008, our receipts in advance were RMB41.7 million and as of 30 April 2009, being the most recent practicable date such information is available to us, RMB41.0 million had been recognized as revenue.

WORKING CAPITAL

Taking into account the net proceeds available to us from the Global Offering, our available credit facilities and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

NET CURRENT ASSETS

Details of our current assets and liabilities at each of the balance sheet dates during the Track Record Period are as follows:

	At 31 December			At 30 April
	2006	2007	2008	2009
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Current assets				
Inventories	83,673	41,983	51,992	41,673
Trade and other receivables	88,828	141,204	136,495	157,761
Amounts due from related parties	16,016	135,197	132,746	133,529
Income tax recoverable	386	—	—	—
Other investment	—	100,000	—	—
Cash and cash equivalents	71,441	102,830	298,148	183,722
Total current assets	**260,344**	**521,214**	**619,381**	**516,685**
Current liabilities				
Trade and other payables	94,054	238,711	171,997	159,646
Amounts due to related parties	36,092	130,846	144,342	179,926
Current tax payables	255	—	13,655	8,823
Total current liabilities	**130,401**	**369,557**	**329,994**	**348,395**
Net current assets	**129,943**	**151,657**	**289,387**	**168,290**

As of 30 April 2009, being the most recent practicable date for our net current assets/liabilities position before the Listing, we had net current assets of RMB168.3 million.

Amounts due from/to related parties

During the Track Record Period, the Controlling Shareholders facilitated the treasury arrangements among various member companies wholly-owned by them. They made advances to the companies which required funding or made drawings from the companies with excess cash, resulting in amounts due from/to related parties. All amounts due from / to related parties were unsecured, interest-free and have no fixed terms of repayment. We have settled the balances from these treasury arrangements before Listing and will make no further such arrangements going forward.

Amounts due from related parties Amounts due from related parties were RMB16.0 million, RMB135.2 million and RMB132.7 million, as of 31 December 2006, 2007 and 2008, respectively, representing the trade receivables collected on our behalf by our Controlling Shareholders and retained according to the above treasury arrangements in 2006, 2007 and 2008.

Amounts due to related parties The following table sets forth our amounts due to related parties during the Track Record Period:

	At 31 December		
	2006	**2007**	**2008**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**
Chen Qiyuan	20,685	93,129	104,317
Actual Reality	15,407	32,567	36,792
Guangzhou Bawang	—	5,150	134
Qiancai Packaging	—	—	601
Chenming Paper	—	—	2,498
Total	**36,092**	**130,846**	**144,342**

During the Track Record Period, we accepted cash advances from our Controlling Shareholder, Mr. Chen, to support our growth. The advances we received throughout the Track Record Period served as short term funds to support our business expansion. The increase in our borrowings from our Controlling Shareholder in 2007 was for Bawang Hong Kong's acquisition of the equity interest in Bawang Guangzhou from Bawang Bermuda.

Guangzhou Bawang became our related party as of 31 December 2007 after completion of the Reorganization. We entered into a three-year production premises and office lease agreement on 22 January 2008 with Guangzhou Bawang pursuant to which we have leased approximately 16,735 square meters in total floor area for a fixed monthly rental payment of RMB184,083, with effect from 4 December 2007. Jones Lang LaSalle Sallmanns Limited has confirmed that the rental payable under this lease agreement is fair and reasonable.

Actual Reality serves as our marketing agent over the Track Record Period by having contracted with Mr. Jackie Chan to provide marketing services to us as well as become the brand ambassador for our 霸王 (Bawang) brand. Payments made by Actual Reality to Mr. Jackie Chan are on our behalf thereby correspondingly creating amounts due to Actual Reality. Actual Reality has fully paid all advertising expenses relating to Mr. Jackie Chan incurred up to 31 January 2009 and will cease paying such expenses incurred subsequent to this date. Since 1 February 2009 all advertising expenses relating to services provided by Mr. Jackie Chan will be paid through our wholly-owned subsidiary, Forever Giants, and a new contract related to such arrangement was signed on 12 June 2009. We believe that our marketing plan and any arrangements with our brand ambassador will not be affected by these changes.

Chenming Paper and Qiancai Packaging, wholly owned by Mr. Chen Qiwen and his spouse, respectively, provided us with paper products and toothpaste containers pursuant to the relevant supply agreements in 2008.

We expect to receive cash settlements of RMB132.9 million in respect of the amounts due from related parties and expect to make settlements amounted to RMB156.4 million in respect of the amounts due to related parties. Our Directors have confirmed that all amounts due from / to the related parties will be settled prior to the Listing.

CAPITAL EXPENDITURES

Capital expenditures during the Track Record Period

During the Track Record Period, our capital expenditure consisted primarily of expenditures on equipment and construction in progress.

The following table sets forth our historical capital expenditures for the periods indicated:

	Year ended 31 December		
	2006	2007	2008
	(RMB'000)	(RMB'000)	(RMB'000)
Property plant and equipment	3,859	11,500	13,979
Construction in progress	—	1,080	1,620
Total	**3,859**	**12,580**	**15,599**

Planned Capital Expenditures

We expect to incur capital expenditures of approximately RMB133.0 million, RMB60.2 million and RMB67.8 million in 2009, 2010 and 2011, respectively. Our principal expected capital expenditures include the installation and fitting costs relating to our planned relocation to a new production facility in Guangzhou. The capital expenditures also include expanding our production capacity by purchasing additional production equipments, diversifying product offering and adding additional production space. We further plan to enhance our research and development capabilities and facilities, develop upstream plantation business and upgrade our information technology systems. Our planned capital expenditures are subject to change based on business and financial conditions. Please see "Business – Production Premises and Production Capacity" in this prospectus for further details.

We expect to finance our capital expenditure through a combination of operating cash flows, our proceeds from the Global Offering and/or bank loans. The cash requirement relating to our expansion plan may vary significantly based on market opportunities. Our ability to satisfy our capital expenditure requirements may be affected by our financial condition, results of operations, and the liquidity of the international and domestic financial markets. We cannot assure you that we will be able to complete our expansion plan on terms acceptable to us or at all, or that we will have sufficient financial resources to complete our expansions.

CONTRACTUAL OBLIGATIONS

Our contractual obligations consist primarily of our capital commitments, payment obligations under the operating lease arrangements and other commitments related to our obligations under certain goods and services contracts.

As at 31 December 2008, we had no capital commitments. Our Directors confirm that we had no capital commitments as of the Latest Practicable Date.

The following table summarizes our operating lease commitments and other commitments as of 31 December 2008:

	Payments due by period				
	Total	Less than 1 year	1-2 years	2-3 years	After 3 years
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Operating lease commitments[(1)]	9,362	4,681	3,508	1,173	—
Other commitments[(2)]	100,274	87,939	8,918	3,417	—
Total	**109,636**	**92,620**	**12,426**	**4,590**	**—**

Notes:

(1) We lease our production and office premises and our operating lease commitments represent our minimum lease payment obligations under these non-cancellable operating leases as of 31 December 2008.

(2) As of 31 December 2008, other commitments represent our fixed or minimum contractual payment obligations under the contracts with our providers of marketing and promotional services, assuming such contracts are not cancelled or otherwise terminated prior to maturity. The majority of our purchases of goods and services are not included as commitments as they are made under purchase orders which are requirements based and accordingly do not specify fixed or minimum quantities to be purchased.

We expect to fund such obligations principally from the cash generated from our operations.

PRE-LISTING ARRANGEMENTS

As some amounts due to our related parties (for details, please refer to the section headed "Financial Information – Amounts due from/to Related Parties") are denominated in foreign currencies such as Hong Kong dollars and U.S. dollars, we facilitated the following pre-listing arrangements to settle those amounts prior to Listing:

- the granting of a credit facility of up to HK$180.0 million (the "**Credit Facility**") by China Merchants Bank Co., Ltd ("**China Merchants Bank**") to Bawang Trading on 12 June 2009 to settle the abovementioned amounts due to our related parties denominated in foreign currencies; and
- as a condition to the Credit Facility,
  - Bawang Group Limited, an entity indirectly wholly owned by Mr. Chen and Ms. Wan, our Controlling Shareholders, agreed to provide a pledge of assets in favor of China Merchants Bank in the full amount of the Credit Facility. Such pledge will be released, upon the earlier of (i) the Listing or (ii) 31 July 2010; and
  - our Company agreed to provide a guarantee in favor of China Merchants Bank in respect of the above Credit Facility, which will become effective on or around Listing.

INDEBTEDNESS

In addition to the Credit Facility as disclosed in "Pre-listing Arrangements" of this section, our Group obtained a standby short-term bank facility of RMB100.0 million from Bank of China on 24 April 2009, which was reserved for general working capital purpose. As of 30 April 2009, our Group had no indebtedness, mortgages or charges, did not issue any debt securities and did not utilize any bank facilities. Prior to Listing, an amount of up to HK$180 million will be drawn down from the Credit Facility to pay off the amounts due to our related parties. We confirm that there has been no material change to our indebtedness position subsequent to 30 April 2009, except as set forth above.

OFF-BALANCE SHEET COMMITMENT AND ARRANGEMENTS

Except for the commitments set forth above, we do not have any off-balance sheet commitments or arrangements as of 30 April 2009, being the most recent practicable date such information is available to us.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities. We are currently not involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we are involved in any material legal proceedings in the future, and based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated, we would then record a contingent liability. We confirm that we do not have any material contingent liabilities subsequent to 30 April 2009.

MARKET RISK

Increasing market fluctuations may result in significant cash-flow and profit volatility risk for us. Our income or the values of our holding of financial instruments are affected by changes in the commodity price of raw materials, foreign exchange rate and interest rate. We seek to manage and control market risk through our regular operating and financial activities and conduct such activities within the guidelines set by the Board.

Foreign Currency Risk

Most of our monetary assets and liabilities are denominated in Renminbi and we conduct our business transactions principally in Renminbi. However, we are exposed to foreign currency risk on the bank deposits obtained from capital injection from overseas, prepayments to our suppliers, amounts due from/to related parties and other payables, where payments are made in foreign currencies. The currencies giving rise to this risk are primarily HK dollars and U.S. dollars. We currently do not have a policy to exercise fair value hedges on foreign currency risk as the impact of foreign currency on our total cost of sales are minimal. However, we monitor foreign currency exposure to ensure that the net exposure is kept to an acceptable level and will consider hedging significant transactions should the need arise. We currently do not and have no plans to employ any financial instruments for hedging purpose as the impact of foreign currency on our total profit is not significant.

Interest Rate Risk

We do not account for any fixed rate financial assets or liabilities at fair value through our income statement. A change in interest rate at the reporting dates would not affect our profit or loss.

Liquidity Risk

Our approach to managing liquidity is to ensure, as far as possible, that we will always have sufficient liquidity to meet our liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation. We strive to ensure that we maintain sufficient reserves of cash on demand to meet our liquidity requirement in the short and longer term, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Effects of Inflation

According to National Bureau of Statistics of China, China's overall national inflation rate, as represented by changes in the general consumer price index, was approximately 1.5%, 4.8% and 5.9% for the years ended 31 December 2006, 2007 and 2008, respectively. The inflation rate in China has been subject to an upward trend since 2007. Although there can be no assurance as to the impact in future periods, inflation has not had a significant effect on our business during the Track Record Period.

CREDIT RISK

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. We have established a credit policy and evaluate all our customers' credit under the policy. The receivables from our retailers are due within 30 to 90 days from the date of billing. We usually require our distributors to make full payments before delivery and would grant some qualified distributors a credit limit evaluated on a case-by-case basis. Customers that fail to meet our benchmark creditworthiness may transact with us on a prepayment basis. We follow-up with the customers to settle overdue balances and monitor the settlement progress on an ongoing basis. We do not collect collateral in respect of trade and other receivables.

We have a concentration of credit risk of the total trade receivables due from our largest customers and the five largest customers as follows:

	At 31 December		
	2006	**2007**	**2008**
Due from			
– largest customer	12.0%	13.0%	13.0%
– five largest customers	35.0%	25.0%	37.0%

The maximum exposure of credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. We do not provide guarantees which would expose us to the credit risk. Over the Track Record Period our five largest customers have changed reflecting the growth of our sales and the expansion of our distribution and retail network. Similar to our other customers, we offer our five largest customers credit terms ranging from 30 to 90 days from the date of billing and they have generally settled all outstanding amounts within the credit terms granted. Other than those trade and other debtors for which impairment losses have been made, there are no other significant credit risks identified.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma statement of our adjusted net tangible assets as of 31 December 2008 is as follows:

	Consolidated net tangible assets attributable to equity shareholders of the Group as of 31 December 2008 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Pro forma adjusted net tangible assets	Pro forma adjusted net tangible assets per Share	Pro forma adjusted net tangible assets per Share (Note 3)
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB)	(Equivalent to HK$)
Based on the offer price of HK$2.38 per share	314,528	1,363,120	1,677,648	0.60	0.68
Based on the offer price of HK$1.95 per share	314,528	1,107,040	1,421,568	0.51	0.58

Notes:

1. The consolidated net tangible assets attributable to equity shareholders of the Group as of 31 December 2008 are extracted from the consolidated financial information included in the "Accountants' Report" as set out in Appendix I to the prospectus.
2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.95 or HK$2.38, being the low or high end of the stated offer price range, per Offer Share after deduction of the underwriting fees and other related expenses payable by the Group and takes no account of any Shares which may be issued upon the exercise of the options that may be granted under the Pre-IPO Share Option Scheme and the Over-allotment Option.
3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 2,800,000,000 Shares are in issue immediately following the Global Offering and Capitalization Issue but takes no account of any Shares which may be issued upon the exercise of the options that may be granted under the Pre-IPO Share Option Scheme and the Over-allotment Option. The unaudited pro forma adjusted net tangible assets per Share is converted to Hong Kong dollars at an exchange rate of RMB0.88 to HK$1.00, the prevailing rate quoted by the PBOC on 31 December 2008.

DISTRIBUTABLE RESERVES

The aggregate amount of distributable reserves of the companies comprising our Group as of 31 December 2008 was RMB251.2 million.

DIVIDEND POLICY

On 18 July 2007, Bawang Guangzhou declared to its then sole shareholder, Bawang Bermuda, a dividend of RMB114.9 million based on the distributable profits at the end of 2006, and the same was paid in September 2007. On 15 May 2008, our Company declared to our sole shareholder, Fortune Station, a dividend of HK$163.0 million based on the distributable profits at the end of 2007, and the same was paid in May 2008. Our Company declared to our sole shareholder, Fortune Station, two dividends of HK$166.7 million and HK$116.7 million on 7 January 2009 and 23 May 2009, respectively, based on the distributable profits at the end of 2008, and the same were paid in January 2009 and May 2009, respectively. For the avoidance of doubt, the holders of Offer Shares will not be entitled to any of the aforesaid pre-IPO dividends.

We paid our pre-IPO dividends using net cash generated from our operating activities and did not obtain external funding for the distributions. The Directors confirm that payments of the aforementioned pre-IPO dividends have all been settled before Listing.

However, these payments are not indicative of our future dividend policy. Our Board may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our shareholders. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

Future dividend payments will also depend upon the availability of dividends received from Bawang Guangzhou, our operating subsidiary in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in certain aspects from IFRSs. PRC laws also require a wholly-owned foreign enterprise, such as Bawang Guangzhou, to transfer at least 10% of its net profit (after offsetting prior years' losses) to statutory reserve until the reserve balance reaches 50% of the registered capital under the Implementation Rules on the PRC Law on Wholly Foreign-Owned Enterprises. The transfer to its reserve must be made before distribution of dividends to its equity holders. Distributions from our PRC operating subsidiary may also be restricted if it incurs losses or in accordance with any, restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our PRC operating subsidiary may enter into in the future.

Subject to the factors above, we plan to distribute regular dividends after listing on the Stock Exchange of Hong Kong. We intend to distribute as dividends approximately 30% of the net profit from ordinary activities attributable to shareholders of the Company for full financial year subsequent to the Global Offering. Such intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay dividend in such manner or declare and pay any dividend at all.

RECENT DEVELOPMENTS

The pressure experienced by global capital and credit markets that began in the second half of 2007 continues and substantially increased during the second half of 2008. Concerns over the availability and cost of credit, the US mortgage market, energy costs, inflation, and a declining US real estate market have contributed to increased volatility and diminished expectations for the global economy and the financial markets going forward. These factors, combined with declining business and consumer confidence and increased unemployment in the United States and Europe, have precipitated a recession and lower consumer demand worldwide. The PRC and international equity markets have also been experiencing heightened volatility. These events and the continuing upheavals have resulted in an economic slowdown and a decrease in consumer confidence in the PRC, which has in turn affected consumers' spending preferences and their demand for consumer products in general.

Accordingly, coupled with the above and the increasingly conservative approach adopted by our distributors and retailers in managing their inventory level, which resulted in the reduction of pre-orders of our products gradually after the financial turmoil, our revenue for the four months ended 30 April 2009 decreased by approximately 10.4% as compared to that for the same period of 2008. Our net profit margin for the four months ended 30 April 2009 was approximately 11.0% compared to around 18.7% for the same period of 2008. The decrease in net profit margin was primarily due to the following:

- as general market and business practice, we entered into contracts for certain of our selling and distribution costs, of which the payments are fixed to some extent and do not vary with our revenue, such as advertising contracts and promotion out-sourcing contracts and related expenses, thereby further amplifying the effect of a reduction in revenue onto net profit;
- increased expenses in relation to the launch of our 追風 (Royal Wind) branded HPC products (launched in May 2009) and other HPC products to be launched this year; and
- non-capitalizable listing expenses of RMB4.2 million, which are non-recurring in nature and mainly comprise part of service fees for legal, accounting and other professional advisors and registration and other regulatory fees.

We believe we managed to continue to maintain profitability despite the economic downturn primarily as a result of our leading market position, differentiated products, unique brand positioning, brand recognition, established nationwide distribution and retail network and experienced management team.

Furthermore, we believe our revenue and net profit level will improve in subsequent periods as a result of (i) an expected stabilization and recovery from the economic downturn during the later part of 2009, thereby improving consumer sentiment and sales of our products, (ii) the recent launch of our new 追風 (Royal Wind) branded HPC products, which is expected to provide us with additional sales, (iii) the expected launch of our new branded skin-care products in 2009, and (iv) our further expansion into new markets such as Myanmar, Malaysia, and Thailand.

However, our revenue and profit levels may continue to be adversely impacted as demand for our products is directly related to the level of consumption in the PRC and other regions in which we sell our products. For details, please refer to section headed "Risk Factors – Risks relating to conducting business in the PRC – The current global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations" in this prospectus.

AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS

The International Accounting Standards Board has issued a number of amendments, new standards and interpretations which had not yet become effective or we had not adopted as of the Latest Practicable Date. The following standards and interpretations may be relevant to our operations and the financial information:

		Effective for accounting periods beginning on or after
IAS 1 (revised)	Presentation of Financial Statements	1 January 2009
IFRSs 8	Operating Segments	1 January 2009
Amendment to IAS 27	Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly-controlled entity or associate	1 January 2009

We are making an assessment of the impact of these amendments, new standards and new interpretations during the period of their initial application. So far we have concluded that the adoption of them is unlikely to have a significant impact on our results of operations and financial position.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or our terms are not less favorable than terms available from independent third-parties, which are considered fair, reasonable and in the interest of the shareholders of our Company as a whole.

DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

The Directors confirm that as of the Latest Practicable Date there were no circumstances that would give rise to the disclosure requirements under Rule 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 31 December 2008, which is the date at which our latest audited financial statements were prepared.