The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong:

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

22 June 2009

The Directors
BaWang International (Group) Holding Limited
Morgan Stanley Asia Limited
The Hongkong and Shanghai Banking Corporation Limited

Dear Sirs,

Introduction

We set out below our report on the financial information relating to BaWang International (Group) Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), in Sections A to F below, including the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the years ended 31 December 2006, 2007 and 2008 (the "relevant period") and the consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008 and balance sheets of the Company as at 31 December 2007 and 2008, together with a summary of significant accounting policies and other explanatory notes thereto (the "Financial Information") for inclusion in the prospectus of the Company dated 22 June 2009 (the "Prospectus") in connection with the initial listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE").

The Company was incorporated in the Cayman Islands on 11 December 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "Company History and Reorganisation" in the Prospectus, which was completed on 31 December 2007, the business operations of manufacturing and sales of the Household Personal-Care Products (the "HPC Products Business"), with relevant assets and liabilities of Guangzhou Bawang Cosmetics Co., Ltd. (廣州霸王化妝品有限公司)[i] (the "Predecessor Entity") were transferred to the Group and the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and the companies now comprising the Group, except for Bawang (Guangzhou) Co., Ltd. (霸王（廣州）有限公司), since the respective dates of their incorporation / establishment as these companies were either newly incorporated or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation / establishment or have not carried on any business since the respective dates of their incorporation / establishment. We have, however, reviewed all significant transactions undertaken by these companies from their respective dates of establishment to 31 December 2008 for the purpose of this report.

[i] The English translation of the company's name is for reference only. The official name of this company is in Chinese.

The statutory financial statements of Bawang (Guangzhou) Co., Ltd. and the Predecessor Entity for the financial years ended 31 December 2006, 2007 and 2008, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC, were audited during the relevant period by the respective statutory auditors as indicated below:

	Statutory auditors
Name of company	**2006, 2007 and 2008**
Bawang (Guangzhou) Co., Ltd. (霸王（廣州）有限公司)	Guangzhou Deyong Certified Public Accountants Co., Ltd. 廣州德永會計師事務所有限公司
Guangzhou Bawang Cosmetics Co., Ltd. (廣州霸王化妝品有限公司)	Guangzhou Deyong Certified Public Accountants Co., Ltd. 廣州德永會計師事務所有限公司

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group and the Predecessor Entity, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate those financial statements to conform with the accounting policies referred to in Section C, which are in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and to comply with the disclosure requirements of the Rules Governing the Listing of Securities on the HKSE. IFRSs include International Accounting Standards ("IASs") and Interpretations.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on the Financial Information based on our audit.

Basis of opinion

As a basis for expressing an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the relevant period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 31 December 2008.

Opinion

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's consolidated results and cash flows for the relevant period, and of the Group's consolidated state of affairs as at 31 December 2006, 2007 and 2008 and of the Company's state of affairs as at 31 December 2007 and 2008.

A BASIS OF PRESENTATION

At the date of this report, the Company has direct or indirect interests in the following subsidiaries, which are private companies or, if established / incorporated outside Hong Kong have substantially the same characteristics as a Hong Kong private company. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation / establishment	Issued and fully paid up / registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Forever Giants Limited ("Forever Giants")	British Virgin Island ("BVI") 8 August 2008	US$1	100%	—	Marketing and promotion of the HPC products
Maxford Investments Development Ltd. ("Maxford")	BVI 11 April 2007	1 share of no par value with US$1 paid up as consideration	100%	—	Investment holding
Lucky Rich Investments Limited(i) ("Lucky Rich")	BVI 2 January 2008	10,000 shares of no par value with US$10,000 paid up as consideration	—	100%	Investment holding
Bawang International Investments Limited(i) ("Bawang Investment")	Hong Kong 24 January 2008	HK$1	—	100%	Investment holding
BaWang International Group Holding (HK) Limited ("Bawang Hong Kong")	Hong Kong 31 October 2007	HK$1	—	100%	Investment holding
Hong Kong Bawang International Trading Limited ("Bawang Trading")	Hong Kong 24 January 2008	HK$1	—	100%	Trading of HPC products
霸王(廣州)有限公司 Bawang (Guangzhou) Co., Ltd.(ii) ("Bawang Guangzhou")	the PRC 13 April 2005	US$12,500,000	—	100%	Manufacturing and trading of HPC products

(i) The Group acquired these two wholly owned subsidiaries from the Controlling Shareholders on 5 November 2008.

(ii) This entity is a wholly foreign owned enterprise established in the PRC.

Pursuant to the Reorganisation which was completed on 31 December 2007, the Predecessor Entity's operations of the HPC Products Business, together with relevant assets and liabilities which are necessary to the HPC Products Business, were transferred to the companies now comprising the Group. The particulars of the Predecessor Entity as at 31 December 2007 are set out below:

Name of Predecessor Entity	Place and date of incorporation / establishment	Fully paid up Capital	Attributable equity interest	Principal activities
廣州霸王化妝品有限公司 Guangzhou Bawang Cosmetics Co., Ltd.	the PRC 23 November 2001	Before 10 August 2007 US$2,300,000/ After 10 August 2007 US$7,295,668	100%	Manufacturing and trading of HPC products

The ultimate equity holders, Mr CHEN Qiyuan and Ms WAN Yuhua, (the "Controlling Shareholders") controlled the HPC Products Business of the Predecessor Entity before the Reorganisation and continue to control the companies now comprising the Group after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits of the HPC Products Business to the Controlling Shareholders, and therefore the Financial Information has been prepared as a business combination under common control. The Financial Information has been prepared using the principles of merger accounting as if the HPC Products Business of the Predecessor Entity had been operated by the companies now comprising the Group and the current group structure had been in existence throughout the relevant period.

Accordingly, all the results related to the operations of the HPC Products Business of the Predecessor Entity for the years ended 31 December 2006 and 2007 are consolidated in the Financial Information. The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the years ended 31 December 2006 and 2007 as set out in Section B include the results of operations of the HPC Products Business of the Predecessor Entity and the companies now comprising the Group. The consolidated income statements, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the year ended 31 December 2008 only include the results of the companies now comprising the Group.

The Predecessor Entity's assets and liabilities which are related to the HPC Products Business are consolidated using their existing book values from the Controlling Shareholder's perspective. The consolidated balance sheet of the Group as at 31 December 2006 as set out in Section B below have been prepared to present the state of affairs of the HPC Products Business of the Predecessor Entity and the companies now comprising the Group, and the consolidated balance sheets as at 31 December 2007 and 2008 have been prepared to present the state of affairs of the companies now comprising the Group as at these dates.

In view of Bawang Guangzhou's plans to relocate to new production premises in the near future, to facilitate its business expansion, certain assets and liabilities of the Predecessor Entity historically associated with the HPC Products Business, for which the results in the relevant period have been included in the Financial Information, were not transferred to Bawang Guangzhou and were retained by the Predecessor Entity ("Retained Assets") upon the completion of the Reorganisation on 31 December 2007. The Retained Assets retained by the Predecessor Entity at 31 December 2007 were treated as deemed appropriations to the equity holders of the Group at 31 December 2007.

The Retained Assets retained by the Predecessor Entity on 31 December 2007 consisted of the following:

	Section C Note	RMB'000
Assets		
Property	9(ii)	10,831
Lease prepayments	10(ii)	4,637
Receivables	14	42
Amounts due from related parties	22(c)	5,150
Cash and cash equivalents	15	26,142
		46,802
Liabilities		
Income tax payable	11(a)(i)	39
Other payables	16	3,686
Amounts due to related parties	22(c)	13,136
		16,861
Net assets		29,941

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

B FINANCIAL INFORMATION

1 Consolidated income statements

	Section C Note	For the year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000
Turnover	3	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		(207)	(266)	(779)
Selling and distribution costs		(97,823)	(292,728)	(512,285)
Administrative expenses		(9,239)	(23,525)	(47,419)
Profit from operations		118,557	182,453	341,925
Finance income	4(a)	538	1,464	3,117
Finance expenses	4(a)	(1,202)	(1,900)	—
Net finance (costs) / income		(664)	(436)	3,117
Profit before income tax	4	117,893	182,017	345,042
Income tax	5(a)	(1,934)	(672)	(63,268)
Profit for the year attributable to the equity holders of the Company		115,959	181,345	281,774
Dividends declared during the year	18(d)	—	114,903	146,423
Basic and diluted earnings per share (RMB yuan)	8	0.06	0.09	0.13

The accompanying notes form part of this Financial Information.

2 Consolidated balance sheets

	Section C Note	At 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000
Non-current assets				
Property, plant and equipment	9	23,949	22,571	31,510
Lease prepayments	10	4,756	—	—
Total non-current assets		28,705	22,571	31,510
Current assets				
Inventories	13	83,673	41,983	51,992
Trade and other receivables	14	88,828	141,204	136,495
Amounts due from related parties	22(c)	16,016	135,197	132,746
Income tax recoverable	11(a)(iii)	386	—	—
Other investment	12	—	100,000	—
Cash and cash equivalents	15	71,441	102,830	298,148
Total current assets		260,344	521,214	619,381
Current liabilities				
Trade and other payables	16	94,054	238,711	171,997
Amounts due to related parties	22(c)	36,092	130,846	144,342
Current tax payables	11(a)(ii)	255	—	13,655
		130,401	369,557	329,994
Net current assets		129,943	151,657	289,387
Total assets less current liabilities		158,648	174,228	320,897
Non-current liabilities				
Deferred tax liabilities	11(b)	—	—	6,369
Net assets		158,648	174,228	314,528
Capital and reserves				
Paid-in capital	17	118,813	—	—
Reserves	18	39,835	174,228	314,528
Total equity		158,648	174,228	314,528

The accompanying notes form part of this Financial Information.

3 Consolidated statements of changes in equity

	Paid-in capital	PRC statutory reserves	Merger reserve	Translation reserve	Retained earnings	Total equity
	RMB'000 (Note 17)	RMB'000 (Note 18(a))	RMB'000 (Note 17(iii))	RMB'000 (Note 18(b))	RMB'000 (Note 18(c))	RMB'000
At 1 January 2006	48,205	6,268	—	—	13,379	67,852
Profit for the year	—	—	—	—	115,959	115,959
Appropriation to statutory reserve	—	13,768	—	—	(13,768)	—
Capital injection (Note 17 (ii))	70,608	—	—	—	—	70,608
Deemed appropriation on carve-out of assets and liabilities not related to the HPC Products Business	—	—	—	—	(95,771)	(95,771)
At 31 December 2006	118,813	20,036	—	—	19,799	158,648
At 1 January 2007	118,813	20,036	—	—	19,799	158,648
Profit for the year	—	—	—	—	181,345	181,345
Appropriation to statutory reserve	—	18,213	—	—	(18,213)	—
Dividends declared during the year (Note 18(d))	—	—	—	—	(114,903)	(114,903)
Capital injection (Note 17 (ii))	71,907	—	—	—	—	71,907
Deemed appropriation on carve-out of assets and liabilities not related to the HPC Products Business	—	—	—	—	(1,521)	(1,521)
Elimination of registered capital in connection with the Reorganisation (Note 17 (iii))	(99,775)	—	8,468	—	—	(91,307)
Deemed appropriation on Reorganisation (Section A; Note 18(e))	(90,945)	(9,527)	—	—	70,531	(29,941)
At 31 December 2007	—	28,722	8,468	—	137,038	174,228
At 1 January 2008	—	28,722	8,468	—	137,038	174,228
Profit for the year	—	—	—	—	281,774	281,774
Appropriation to statutory reserve	—	21,165	—	—	(21,165)	—
Exchange difference on translation of financial statements of foreign subsidiaries	—	—	—	4,949	—	4,949
Dividends declared during the year (Note 18(d))	—	—	—	—	(146,423)	(146,423)
At 31 December 2008	—	49,887	8,468	4,949	251,224	314,528

The accompanying notes form part of this Financial Information.

4 Consolidated cash flow statements

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities			
Profit before taxation	117,893	182,017	345,042
Adjustments for:			
Depreciation	2,251	3,127	4,800
Amortisation of lease prepayments	119	119	—
Net loss on disposal of machinery and equipment	—	—	1,860
Impairment loss for bad and doubtful debts	800	701	538
Interest income on bank deposits	(538)	(1,464)	(1,957)
Investment income	—	—	(484)
Subtotal	120,525	184,500	349,799
Change in inventories	(45,152)	41,690	(10,009)
Change in trade and other receivables	(59,179)	(53,119)	6,531
Change in trade and other payables	57,152	148,343	(66,714)
Change in amounts due from related parties	(16,016)	(124,331)	2,451
Change in amounts due to related parties	937	16,582	12,637
Cash generated from operating activities	58,267	213,665	294,695
Income tax paid	(3,468)	(503)	(43,244)
Net cash generated from operating activities	54,799	213,162	251,451
Cash flows from investing activities			
Interest received	538	1,464	1,957
Acquisition of property, plant and equipment	(3,859)	(12,578)	(12,151)
Acquisition of other investments	—	(100,000)	(410,000)
Proceeds from sales of other investments	—	—	510,484
Net cash used in investing activities	(3,321)	(111,114)	90,290
Cash flows from financing activities			
Capital contribution from equity shareholders	70,608	71,907	—
Cash distributed to equity owner on Reorganisation (Section A)	—	(26,142)	—
Payment in connection with the assets and liabilities not related to the HPC Products Business being carved-out	(95,771)	(1,521)	—
Dividends paid	—	(114,903)	(146,423)
Net cash 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 at 1 January	45,126	71,441	102,830
Cash and cash equivalents at 31 December	71,441	102,830	298,148

Non-cash transactions

On 31 December 2007, non-cash assets and liabilities of the Predecessor Equity with an aggregate amount of RMB3,799,000 which were related to the operation of the HPC Products Business were retained by the Predecessor Entity. They were reflected as deemed appropriation to the equity holders of the Company (Section A).

On 20 December 2007, Bawang Hong Kong, a wholly owned subsidiary of the Company, acquired all the equity interest of Bawang Guangzhou amounting to US$12,500,000, which was previously held by a company owned by the Controlling Shareholders, at a consideration of the same amount. The acquisition was satisfied by way of setting up of unsecured and interest free advances from the Controlling Shareholders to Bawang Hong Kong.

The accompanying notes form part of this Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with IFRSs promulgated by IASB, which include all applicable individual International Financial Reporting Standards, IASs and related Interpretations. Further details of the significant accounting policies adopted are set out in the remaining part of this Section C.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKSE.

During the relevant period, the IASB issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs in the relevant period, except for any new standards or interpretation that are not yet effective for the relevant period. The revised and new accounting standards and interpretations issued but not yet effective for the relevant period are set out in Note 24.

A summary of the significant accounting policies adopted and consistently applied by the Group in the preparation of the Financial Information is set out below.

(b) Basis of Combination

The Financial Information has been prepared using the merger accounting as if the HPC Products Business of the Predecessor Entity had been operated by the companies now comprising the Group and the current group structure had been in existence throughout the relevant period, as further explained in Section A.

(c) Basis of measurement

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand except per share data. RMB is the functional currency and the reporting currency for the Group's subsidiaries established in the PRC.

The Financial Information has been prepared on the historical cost basis except that available-for-sale financial assets are measured at fair value (Note 1(g)). The methods used to measure fair value are set out in Note 2.

(d) Use of estimates and judgments

The preparation of the Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in Note 23.

(e) Subsidiaries

(i) Subsidiaries are entities controlled by the Group. Control exists when the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(f) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The assets and liabilities of foreign operations are translated into RMB at the exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to RMB at exchange rates ruling at the dates of the transactions. Foreign currency differences are recognised directly in equity.

(g) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, other investment, cash and cash equivalents, trade and other payables and amounts due from / (to) related parties.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition of non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the assets. Regular way of purchasing and selling of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the assets. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Trade and other receivables and amounts due from related parties are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts.

Trade and other payables and amounts due to related parties are initially recognised at fair value and thereafter measured at amortised cost using the effective interest method.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting policy for finance income and expenses is set out in Note 1(p).

Available-for-sale financial assets

Available-for-sale financial assets are initially recognised at cost which includes attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (Note 1(k)(i)), are recognised directly in equity. Upon derecognition, the cumulative gain or loss in equity is transferred to profit or loss.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (Note 1(k)(ii)).

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Construction in progress represents property, plant and equipment under construction, and is stated at cost less impairment losses (Note 1(k)(ii)).

Cost comprises direct costs of construction during the construction period. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially complete.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day serving of property, plant and equipment are recognised in profit and loss as incurred.

(iii) Depreciation

Depreciation is recognised 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.

(i) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC government authorities. Land use rights are stated as cost less accumulated amortisation and impairment losses (Note 1(k)(ii)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of the rights.

(j) Inventories

Inventories are measured at the lower of cost and net realisable 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 realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of assets or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the assets.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Employee benefit

(i) Short term employee benefits

Salaries, wages, annual bonuses and staff welfare are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Defined contribution retirement plans

Obligations for contributions to local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss when they are due, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Share-based payment transactions

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(m) Provisions and contingent liabilities

Provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) *Turnover*

Revenue from the sale of goods is measured 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. Revenue is recognised 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.

(o) *Operating lease payment*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

(p) *Finance income and expenses*

Finance income comprises interest income on deposits in banks. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise foreign currency losses.

(q) *Research and development costs*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(r) *Income tax expense*

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary difference arising from the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) *Related parties*

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(t) *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in a single business segment, the HPC Products Business. Accordingly no business segmental analysis is presented.

Prior to 2008, the Group and the Predecessor Entity operated the HPC Products Business in a single geographical segment, the Mainland China. Hence, no geographical segmental analysis for the years ended 31 December 2006 and 2007 is presented.

Starting from 2008, the Group managed the HPC Products Business on an Asian-wide basis, and participated in three principal economic environments, Mainland China, Hong Kong and Singapore. Mainland China is the major market for all of the Group's business, while Hong Kong and Singapore are newly developed markets, of which the revenue from sales to external customers, segment result and assets constituted 1.2%, 2.3% and 1.5% of the combined revenue, combined segment result and combined assets of all the segments for 31 December 2008 respectively. Hence, no geographical segmental analysis is presented.

2 Determination of fair value for non-derivative financial assets and liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset and liability.

3 Turnover

The Group is principally engaged in the manufacturing and sales of the HPC Products Business including hair-care and skin-care products.

Turnover represents the sales value of goods supplied to customers. Turnover excludes value added taxes and other sales taxes and is after deduction of any trade discounts. The amount of revenue recognised in turnover during the relevant period is as follows:

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Hair-care products	362,522	876,501	1,334,142
Other HPC products	29,847	45,179	77,106
	392,369	921,680	1,411,248

4 Profit before income tax

Profit before income tax is arrived at after (charging) / crediting:

(a) Finance income and expenses

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Finance income			
Interest income on bank deposits	538	1,464	1,957
Net foreign exchange gain	—	—	1,160
Subtotal	538	1,464	3,117
Finance expenses			
Net foreign exchange losses	(1,202)	(1,900)	—
Net finance (costs) / income	(664)	(436)	3,117

*(b) Staff costs**

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Salaries, wages and other benefits	15,304	77,763	166,404
Contributions to defined contribution retirement plan	278	1,460	4,330
	15,582	79,223	170,734

Staff costs included directors' remuneration (Note 6).

Pursuant to the relevant labour rules and regulations in the PRC, the Predecessor Entity and the PRC subsidiary participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the local authority whereby the Predecessor Entity and the PRC subsidiary are required to make contributions to the Scheme based on certain percentages of the eligible employee's salaries. The local government authority is responsible for the entire pension obligations payable to the retired employees.

The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

(c) *Other items*

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Depreciation*	2,251	3,127	4,800
Amortisation of lease prepayments	119	119	—
Advertising expenses	64,779	131,906	159,451
Promotion and gift expenses	20,008	85,536	179,551
Auditors' remuneration	13	15	4,294
Cost of inventories*	166,543	422,708	509,324
Impairment loss for bad and doubtful debts (Note 14)	800	701	538

* Cost of inventories includes RMB7,197,000, RMB18,494,000 and RMB36,611,000 for the years ended 31 December 2006, 2007 and 2008 respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in Note 4(b) for each of these types of expenses.

5 Income tax expense

(a) *Income tax expense in the consolidated income statements represents:*

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Current tax – PRC income tax			
Provision for the year	1,934	672	56,401
Current tax – Hong Kong income tax			
Provision for the year	—	—	498
Deferred tax – PRC income tax			
Origination of temporary differences	—	—	6,369
Income tax expense	1,934	672	63,268

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) Pursuant to the income tax rules and regulations of the PRC, the PRC subsidiary of the Group and the Predecessor Entity are liable to PRC enterprise income tax as follows during the relevant period:

- Bawang Guangzhou is a production-oriented wholly foreign owned enterprise located in the coastal economy open zone of Guangzhou. Pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment & Foreign Enterprises and relevant rules, Bawang Guangzhou is eligible for a preferential income tax rate of 27% and tax concessions whereby its taxable profit for the first two financial years beginning with the first profit-making year after offsetting the allowable tax loss is exempted from income tax and its taxable profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the local authority. No provision for PRC income tax has been made for the years ended 31 December 2006 and 2007, as 2006 was the entity's first profit-making year after offsetting its allowable tax loss.

  On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("CIT law") which started to take effect on 1 January 2008. In December 2007, the Implementation Rules of the Corporate Income Tax Law of the PRC and "Guo Fa [2007] No. 39" were promulgated to specify certain implementation details and grandfathering arrangements of the new tax law. As a result of the CIT law and the grandfathering arrangements, Bawang Guangzhou is subject to an unified tax rate of 25% from

1 January 2008, but it can continue to enjoy the 50% reduction in its applicable rate till the end of the tax holiday.

- The Predecessor Entity is a production-oriented wholly foreign owned enterprise located in the coastal economy open zone of Guangzhou. It is eligible for a preferential income tax rate of 27% and tax concessions whereby its taxable profits for the first two financial years beginning with the first profit-making year after offsetting its allowable tax loss is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the local authority. 2002 was the entity's first profit-making year after offsetting its allowable tax loss, provision for PRC income tax for the years ended 31 December 2006 and 2007 has been made accordingly.

(iii) Pursuant to the Implementation Rules of the Corporate Income Tax Law, overseas investor to the foreign investment companies ("FIE") shall be liable for withholding income tax at 10% on the dividend derived from the profits of the PRC subsidiaries with effect from 1 January 2008, unless the tax rate is reduced by treaty. Pursuant to the Sino-Hong Kong Double Tax Arrangements, the investor established in Hong Kong is subject to a reduced withholding tax rate of 5% on the dividend received from its PRC subsidiaries. In addition, pursuant to the grandfathering arrangement, dividends received by the overseas investor from its PRC subsidiaries in respect of the undistributed profits derived prior to 31 December 2007 are exempted from the withholding income tax. The Group has made provision of withholding income tax on the distributable profits generated by Bawang Guangzhou since 1 January 2008.

(iv) No provision has been made for Hong Kong Profits Tax for the years ended 31 December 2006 and 2007, as the Group has not earned any income subject to Hong Kong Profits Tax during the period. Bawang Trading was profit-making in 2008 and has made a provision for Hong Kong Profits Tax for the year ended 31 December 2008 based on the applicable tax rate of 16.5%.

(b) Reconciliation between income tax expenses and accounting profit at applicable tax rates:

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Profit before income tax	117,893	182,017	345,042
Income tax on profit before tax, calculated at the rates applicable to the PRC operations	31,831	49,145	86,261
Effect of withholding income tax (Note 5(a)(iii))	—	—	14,189
Effect of different tax rates of subsidiaries operating in different jurisdictions	—	27	(257)
Effect on deemed taxable income[(i)]	—	—	3,483
Effect of non-deductible expenses	3,884	7,159	5,297
Effect of unused tax losses not recognised	—	10	2,736
Effect of tax concessions[(ii)]	(33,781)	(55,669)	(48,441)
Income tax expenses	1,934	672	63,268

(i) Effect on deemed taxable income represents deemed sales income in respect of promotional goods provided to customers at nil consideration, which is calculated in accordance with the CIT law of the PRC, applicable from 1 January 2008.

(ii) Effect of tax concessions represents the difference between standard income tax rate and preferential income tax rate enjoyed by the Group and the Predecessor Entity as set out in Note 5(a)(ii).

(c) Deferred taxation

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities as of 31 December 2006, 2007 and 2008 are presented below:

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Deferred tax liabilities arising from undistributed earnings of PRC subsidiary since 1 January 2008 (Note 5 (a)(iii))	—	—	6,369

6 Directors' remuneration

Details of directors' remuneration of the Group are as follows:

	For the year ended 31 December 2006				
	Fees	Salaries, allowances and benefits in kind	Contribution to retirement benefit plan	Bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr CHEN Qiyuan	—	—	—	—	—
Ms WAN Yuhua	—	—	—	—	—
Mr SHEN Xiaodi	—	—	—	—	—
Mr WONG Sin Yung	—	—	—	—	—
Total	—	—	—	—	—
Non-executive director					
Ms GUO Jing	—	—	—	—	—
Independent non-executive directors					
Mr NGAI Wai Fung	—	—	—	—	—
Mr CHEN Kaizhi	—	—	—	—	—
Mr LI Bida	—	—	—	—	—

	For the year ended 31 December 2007				
	Fees	Salaries, allowances and benefits in kind	Contribution to retirement benefit plan	Bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr CHEN Qiyuan	—	—	—	—	—
Ms WAN Yuhua	—	—	—	—	—
Mr SHEN Xiaodi	—	—	—	—	—
Mr WONG Sin Yung	—	—	—	—	—
Total	—	—	—	—	—
Non-executive director					
Ms GUO Jing	—	—	—	—	—
Independent non-executive directors					
Mr NGAI Wai Fung	—	—	—	—	—
Mr CHEN Kaizhi	—	—	—	—	—
Mr LI Bida	—	—	—	—	—

	For the year ended 31 December 2008				
	Fees	Salaries, allowances and benefits in kind	Contribution to retirement benefit plan	Bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr CHEN Qiyuan	—	—	—	—	—
Ms WAN Yuhua	—	—	—	—	—
Mr SHEN Xiaodi	—	136	—	—	136
Mr WONG Sin Yung	—	1,247	—	—	1,247
Total	—	1,383	—	—	1,383
Non-executive director					
Ms GUO Jing	—	2	—	—	2
Independent non-executive directors					
Mr NGAI Wai Fung	—	16	—	—	16
Mr CHEN Kaizhi	—	—	—	—	—
Mr LI Bida	—	3	—	—	3

During the relevant period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the relevant period.

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	For the year ended 31 December		
	2006	2007	2008
	Number of directors	Number of directors	Number of directors
Nil to HK$1,000,000	8	8	7
HK$1,000,000 to 1,499,999	—	—	1
	8	8	8

7 Individuals with highest emoluments

For the years ended 31 December 2006, 2007 and 2008, the aggregate of the emoluments in respect of the 5 individuals with highest emoluments are as follows:

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	299	430	1,751
Contribution to defined contribution retirement plans	84	120	103
	383	550	1,854

An analysis of the emoluments of the 5 individuals with the highest emoluments are with the following bands:

	For the year ended 31 December		
	2006	2007	2008
	Number of individuals	Number of individuals	Number of individuals
Nil to HK$1,000,000	5	5	4
HK$1,000,000 to 1,499,999	—	—	1
	5	5	5

8 Earnings per share

The calculation of basic earnings per share during the relevant period is based on the profit attributable to equity holders of the Company for the respective years and on the assumption that 2,100,000,000 ordinary shares were in issue throughout the relevant period comprising 10,000 ordinary shares in issue as at the date of the Prospectus, 2,099,990,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in the paragraph headed "Resolutions of our Shareholder passed on 20 May 2009" under the section headed "Statutory and General Information" in Appendix V to the Prospectus.

There were no dilutive potential ordinary shares during the relevant period, and therefore, diluted earnings per share are the same as the basic earnings per share.

9 Property, plant and equipment

	Buildings	Machinery	Motor vehicles	Office equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2006	15,879	9,658	1,989	814	—	28,340
Additions	—	2,089	849	921	—	3,859
At 31 December 2006	15,879	11,747	2,838	1,735	—	32,199
Additions	—	8,694	371	2,435	1,080	12,580
Deemed disposals upon Reorganisation(ii)	(15,879)	—	—	—	—	(15,879)
At 31 December 2007	—	20,441	3,209	4,170	1,080	28,900
Additions	—	4,426	7,999	1,554	1,620	15,599
Disposal	—	(1,778)	(4)	(259)	—	(2,041)
Transfer from CIP	—	2,700	—	—	(2,700)	—
At 31 December 2008	—	25,789	11,204	5,465	—	42,458
Accumulated depreciation:						
At 1 January 2006	(3,573)	(1,627)	(606)	(193)	—	(5,999)
Charge for the year	(715)	(888)	(445)	(203)	—	(2,251)
At 31 December 2006	(4,288)	(2,515)	(1,051)	(396)	—	(8,250)
Charge for the year	(760)	(1,383)	(514)	(470)	—	(3,127)
Deemed disposals upon Reorganisation(ii)	5,048	—	—	—	—	5,048
At 31 December 2007	—	(3,898)	(1,565)	(866)	—	(6,329)
Charge for the year	—	(2,848)	(1,196)	(756)	—	(4,800)
Written back on disposal	—	133	—	48	—	181
At 31 December 2008	—	(6,613)	(2,761)	(1,574)	—	(10,948)
Carrying amount:						
At 31 December 2006	11,591	9,232	1,787	1,339	—	23,949
At 31 December 2007	—	16,543	1,644	3,304	1,080	22,571
At 31 December 2008	—	19,176	8,443	3,891	—	31,510

(i) All property, plant and equipment owned by the Group are located in the PRC.

(ii) Pursuant to the Reorganisation, buildings with aggregate net book value of RMB10,831,000 were retained by the Predecessor Entity and had been reflected as deemed appropriation to equity holders of the Company for the year ended 31 December 2007 (Section A). These buildings were leased to the Group under operating leases with effect from 4 December 2007 (Note 22(a)(i)).

10 Lease prepayments

	RMB'000
Cost:	
At 1 January and 31 December 2006	5,320
Deemed disposal upon Reorganisation(ii)	(5,320)
At 31 December 2007 and 31 December 2008	—
Accumulated amortisation:	
At 1 January 2006	(445)
Charge for the year	(119)
At 31 December 2006	(564)
Charge for the year	(119)
Deemed disposal upon Reorganisation(ii)	683
At 31 December 2007 and 31 December 2008	—
Carrying amount:	
At 31 December 2006	4,756
At 31 December 2007	—
At 31 December 2008	—

(i) Interests in leasehold land represent prepayments of land use rights premium to the PRC authorities by the Predecessor Entity. The Predecessor Entity's leasehold land is located in the PRC, on which its manufacturing plants were built. The Predecessor Entity is granted land use rights for a period of 50 years.

(ii) Pursuant to the Reorganisation, land use right (area of approximately 9,704 square metres) with an aggregate carrying value of RMB4,637,000 was retained by the Predecessor Entity and had been reflected as deemed appropriations to the equity holders of the Company (Section A). This land use right was leased to the Group under operating leases of 36 months with effect from 4 December 2007 (Note 22(a)(i)).

11 Income tax in the consolidated balance sheets

(a) Current taxation in the consolidated balance sheets represents:

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the year (Note 5(a))	1,934	672	56,401
Provision for Hong Kong Profits Tax for the year (Note 5(a))	—	—	498
PRC income tax paid	(2,065)	(633)	(43,244)
	(131)	39	13,655
Deemed disposals upon reorganisation(i)	—	(39)	—
	(131)	—	13,655
Represented by:			
Current tax payables(ii)	255	—	13,655
Tax recoverable(iii)	386	—	—

(i) Pursuant to the Reorganisation, the income tax payable amounting to RMB39,000 was retained by the Predecessor Entity and had been reflected as deemed appropriation to equity holders of the Company for the year ended 31 December 2007 (Section A).

(ii) Current tax payables as at 31 December 2006 represented the current tax payables of the Predecessor Entity and the balance as at 31 December 2008 represented the current tax payables of the Group.

(iii) The tax recoverable as at 31 December 2006 represented the prepaid income tax by Bawang Guangzhou.

(b) Deferred tax liability recognised:

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Deferred tax liability arising from – undistributed earnings of PRC subsidiary since 1 January 2008 (Note 5(a)(iii))	—	—	6,369

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(r), the Group has not recognised deferred tax assets in respect of accumulative tax losses of the Company, Maxford, Bawang Hong Kong, Forever Giants, Lucky Rich and Bawang Investment totally amounting to RMB149,000 and RMB10,942,000 as at 31 December 2007 and 2008 respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under current tax legislation.

12 Other investment

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Available-for-sale financial asset	—	100,000	—

The available-for-sale financial asset was a financial product managed by Bank of China with investments in a portfolio of debt and equity securities. As at 31 December 2007, the financial product was stated at fair value and was neither past due or impaired. The financial product was subsequently disposed with a gain in January 2008.

13 Inventories

	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
Packing materials	10,524	9,038	11,134
	83,673	41,983	51,992

An analysis of the amount of inventories recognised as an expense is as follows:

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Carrying amount of inventories recognised	166,543	422,708	509,324

14 Trade and other receivables

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Trade receivables	59,835	89,984	101,773
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
	88,828	141,204	136,495

The Group's credit policy is set out in Note 20(b). All of the trade and other receivables are expected to be recovered within one year.

An ageing analysis of trade receivables by due date is as follows:

	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
More than 3 months but less than 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	—
	62,688	91,485	101,874
Less: impairment loss for doubtful debts	(2,853)	(1,501)	(101)
	59,835	89,984	101,773

An ageing analysis of trade receivables by billing date is as follows:

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Less than 3 months	43,747	81,589	83,740
More than 3 months but less than 6 months	14,280	3,188	15,925
More than 6 months but less than 12 months	2,065	4,783	2,209
More than 12 months but less than 27 months	2,596	1,925	—
	62,688	91,485	101,874
Less: impairment loss for doubtful debts	(2,853)	(1,501)	(101)
	59,835	89,984	101,773

The movement in the allowance for impairment in respect of trade receivables during the relevant period are as follows:

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Balance at 1 January	2,053	2,853	1,501
Impairment loss recognised	800	701	538
Written off	—	(2,053)	(1,938)
Balance at 31 December	2,853	1,501	101

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	31,183	75,533	72,450
Less than 3 months past due	21,790	7,190	27,096
More than 3 months but less than 6 months past due	4,064	2,092	2,227
More than 6 months but less than 12 months past due	1,452	4,063	—
More than 12 months but less than 24 months past due	1,346	1,106	—
	28,652	14,451	29,323
	59,835	89,984	101,773

Based on past experience, except for the above amounts that the customers were unable to repay the outstanding balance, the Group believes that no impairment allowance is necessary in respect of remaining trade and other receivables. All these customers have a good track record with the Group.

Pursuant to the Reorganisation, other receivables with an aggregate carrying value of RMB42,000 were retained by the Predecessor Entity and had been reflected as deemed appropriation to equity holders of the Company for the year ended 31 December 2007 (Section A).

15 Cash and cash equivalents

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	71,441	102,830	298,148

Pursuant to the Reorganisation, cash and cash equivalents with an aggregate carrying amount totalling RMB26,142,000 were retained by the Predecessor Entity and had been reflected as deemed appropriation to equity holders of the Company for the year ended 31 December 2007 (Section A).

As at 31 December 2008, cash and cash equivalents in the amount of RMB147,190,000 (31 December 2006: RMB58,326,000; 31 December 2007: RMB98,967,000) are dominated in RMB and are deposited with Bank of China and China Merchants Bank in the PRC in the ordinary course of business. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

16 Trade and other payables

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Trade payables	38,831	114,957	60,754
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
Other payables and accruals	8,134	27,235	33,485
	94,054	238,711	171,997

The credit period granted by the suppliers ranges from 30 days to 90 days.

An ageing analysis of trade payables by due date is as follows:

	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
	38,831	114,957	60,754

An ageing analysis of trade payables by billing date is as follows:

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Less than 3 months	33,702	109,373	54,592
More than 3 months but less than 6 months	2,536	5,023	4,307
More than 6 months but less than 12 months	1,505	93	1,069
More than 12 months but less than 24 months	1,088	468	786
	38,831	114,957	60,754

Pursuant to the Reorganisation, other payables with an aggregate carrying value of RMB3,686,000 were retained by the Predecessor Entity and had been reflected as deemed appropriation to equity holders of the Company for the year ended 31 December 2007 (Section A).

17 Paid-in capital

(i) For the purpose of this report, the paid-in capital in the consolidated balance sheet as at the respective year end was presented as follows:

- The paid-in capital as at 31 December 2006 represented an aggregate amount of paid-in capital of the Predecessor Entity & Bawang Guangzhou.
- The Company was incorporated in Cayman Islands on 11 December 2007 and became the holding company of the companies now comprising the Group. The paid-in capital as at 31 December 2007 represented the nominal value of the share capital of the Company amounting to US$1 (equivalent to RMB7 yuan), which consisted of 1 ordinary share. Pursuant to a written resolution of the shareholder of the Company passed on 10 December 2008, the Company repurchased the existing ordinary share in issue (the "Repurchase") and increased its authorised share capital by HK$1,000 (equivalent to approximately RMB882 yuan) by the creation of 10,000 shares of HK$0.10 par value each, which were issued to its shareholder, Fortune Station Limited (the "Issue"). Both the Repurchase and the Issue have not been settled as of 31 December 2008.

(ii) On 12 June 2006 and 16 October 2006, the equity owner of Bawang Guangzhou injected capital in cash amounting to US$5,924,800 and US$2,966,000 respectively (equivalent to RMB70,608,000 in aggregate).

On 10 August 2007 and 23 October 2007, the equity owner of the Predecessor Entity injected capital in cash amounting to US$4,996,000 and US$4,550,000 respectively (equivalent to RMB71,907,000 in aggregate).

(iii) On 20 December 2007, Bawang Hong Kong, a wholly owned subsidiary of the Company, acquired all the equity interest of Bawang Guangzhou amounting to US$12,500,000, which was previously held by a company owned by the Controlling Shareholders, at a consideration of the same amount. Accordingly, the paid-in capital of Bawang Guangzhou was eliminated and a merger reserve arose due to foreign exchange differences.

18 Reserves

(a) PRC statutory reserves

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the Predecessor Entity and the Company's subsidiary established in the PRC. Transfers to the reserves were approved by the respective board of directors.

The Predecessor Entity and Bawang Guangzhou, which are wholly foreign owned enterprises established in the PRC, are required to transfer at least 10% of its net profit (after offsetting prior year losses), as determined under the PRC accounting rules and regulations, to statutory general reserve until the reserve balance reaches 50% of the registered capital under the PRC Company Law and the articles of association of these entities. The transfer to this reserve must be made before distribution of dividends to equity holders.

Statutory general reserve can be used to make good prior years' losses, if any, and may be converted into share capital by issuing new shares to equity owners proportionate to their existing percentage of equity interests provided that the balance after such issue is not less than 25% of the registered capital.

(b) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 1(f).

(c) Distributable reserves

The Company was incorporated on 11 December 2007 and has not carried out any business since the date of its incorporation till 31 December 2007. Accordingly, there was no reserve available for distribution to equity holders as of 31 December 2007. The accumulative losses of the Company as at 31 December 2008 is RMB7,597,000.

On the basis set out in Section A above, the aggregate amount of distributable reserves of the companies now comprising the Group and the Predecessor Entity at 31 December 2006 was RMB19,799,000.

The Group's capital management policy is set out in Note 20(d).

(d) Dividends

Pursuant to the resolutions passed at the board of directors' meeting of Bawang Guangzhou and the Company on 18 July 2007 and 15 May 2008, dividends at an aggregate amount of RMB114,903,000 and HK$163,000,000 (equivalent to RMB146,423,000) were declared by Bawang Guangzhou and the Company to the equity holders respectively. The amounts declared were fully paid in September 2007 and May 2008. The directors consider that the dividend payments during the relevant period are not indicative of the future dividend policy of the Company.

(e) Deemed distribution to equity holders upon the Reorganisation

Pursuant to the Reorganisation, assets and liabilities with an aggregate net book value of RMB29,941,000 were retained by the Predecessor Entity and were deemed to be distributed to the equity holders of the Company on 31 December 2007. Details of these assets and liabilities are set out in Section A.

19 Equity settled share-based transactions

The Board of Directors approved a Pre-IPO Share Option Plan on 10 December 2008. However, the number of shares and the exercise price of the share options to be granted to the employees have not been determined and the arrangement has not been agreed with the employees as of 31 December 2008. Therefore, the cost of share options has not been recognised in the income statement for the year ended 31 December 2008.

The principal terms of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in the section headed "Statutory and General Information" in Appendix V to the Prospectus.

20 Financial risk management

The Group has exposure to the following risks in the normal course of business:

- market risk
- credit risk
- liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Market risk

Increasing market fluctuations may result in significant cash-flow and profit volatility risk for the Group. The Group's income or the values of its holding of financial instruments are affected by changes in commodity price of raw materials, foreign exchange rate and interest rate. The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, while minimising the costs on managing the risk.

The Group seeks to manage and control the market risks primarily through its regular operating and financial activities. All such transactions are carried out within the guidelines set by the Board of Directors.

(i) Commodity price risk

Raw materials and packing materials are the major materials of the Group's products which accounted for more than 89% of total cost of sales. Fluctuation on commodity price of raw materials and packing materials will have significant impact on the Group's earnings, cash flows as well as the value of inventories. The Group minimises the cost of materials by purchase in large quantities and partial self-production of plastic bottles. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

The Group will continue the above practice after it is being listed on the HKSE.

(ii) Foreign currency risk

Most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducts its business transactions principally in Renminbi.

Included in assets and liabilities are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	At 31 December		
	2006	2007	2008
Cash and cash equivalents			
HK$ ('000)	8,969	7,201	146,729
US$ ('000)	33	2,989	3,000
SG$ ('000)	—	—	180
Prepayment			
US$ ('000)	417	1,750	1,559
Trade and other receivables			
HK$ ('000)	—	—	7,477
Other payables			
HK$ ('000)	—	—	(2,156)
US$ ('000)	—	—	(167)
Amounts due to related parties			
HK$ ('000)	—	—	(9,534)
US$ ('000)	(1,550)	(16,350)	(18,471)
Current tax payables			
HK$ ('000)	—	—	(566)

The Group is exposed to foreign currency risk on the bank deposits, prepayment, trade and other receivables, amounts due from related parties, other payables, and the amounts due to related parties. The currencies giving rise to this risk are primarily Hong Kong Dollars ("HKD") and United States Dollars ("USD"). The Group currently does not have a policy to exercise fair value hedges on foreign currency risk as the impact of foreign currency on the Group's total cost of sales are minimal. However, management monitors 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.

Sensitivity analysis

The foreign currency sensitivity is calculated based on the major net foreign currency exposure of the Group as at the balance sheet dates, assuming 5% shift of RMB against HKD and USD are as follows:

Results from a 5% strengthening of the RMB against HKD and USD on the profit after tax and retained profits at 31 December 2006, 2007 and 2008 are shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Increase / (decrease) on profit after tax and retained profits
31 December 2006	
Effect in RMB'000	
HK$	(451)
US$	755
31 December 2007	
Effect in RMB'000	
HK$	(337)
US$	4,241
31 December 2008	
Effect in RMB'000	
HK$	(6,260)
US$	4,811
SG$	(43)

A 5% weakening of the RMB against the above currencies at 31 December 2006, 2007 and 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Interest rate risk

The Group does not account for any fixed rate financial assets or liabilities at fair value through income statement in the relevant period. Therefore a change in interest rate at the reporting dates would not affect the profit or loss.

Effective interest rates

In respect of income-earning financial assets, the following tables indicate their average effective interest rates at the respective balance sheet dates.

	At 31 December		
	2006	**2007**	**2008**
Variable rate instruments Cash and cash equivalents	0.76%	0.81%	0.36%

(b) *Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has established a credit policy under which credit evaluations are performed on all customers requiring credit. These receivables are due within 30-90 days from the date of billing. Credit limit is established for each customer which represents the maximum open amount or credit term without requiring approval from the Board of Directors, these limits are reviewed annually. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis. The Group chases the customers to settle the due balances and monitors the settlement progress on an ongoing basis. The Group does not collect collateral in respect of trade and other receivables.

The Group has a concentration of credit risk of the total trade receivables due from the Group's largest customer and the five largest customers as follows:

	At 31 December		
	2006	**2007**	**2008**
Due from			
– largest customer	12%	13%	13%
– five largest customers	35%	25%	37%

The maximum exposure of credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. The Group does not provide guarantees which would expose the Group to the credit risk.

Other than those trade and other receivables that impairment losses have been made for (Note 14), there are no other significant credit risks identified.

(c) *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it maintains sufficient reserves of cash on demand to meet its 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.

(d) Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Group defines the capital of the Group as the total shareholders' equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(e) Fair value

The carrying amounts of all financial assets and liabilities approximate their respective fair values as at 31 December 2006, 2007 and 2008 due to the short maturities of these instruments.

21 Operating lease commitments

At the balance sheet date, the Group's total future minimum leases payments under non-cancellable operating leases were payable as follows:

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Leases expiring:-			
Within 1 year	58	2,209	4,681
Between 1 and 2 years	53	2,209	3,508
Between 2 and 3 years	53	2,025	1,173
Total	164	6,443	9,362

The significant leasing arrangements under operating leases include the lease of the production premises and office from the Predecessor Entity as set out in Note 22(a)(i).

22 Material related party transactions

During the relevant period, the directors are of the view that related parties of the Group include the following individuals / companies:

Name of related party	Relationship with the Group
Mr CHEN Qiyuan	Controlling Shareholder
Ms WAN Yuhua	Controlling Shareholder
Actual Reality Inc.	Holding company of the Predecessor Entity, 100% owned by the Controlling Shareholders
Guangzhou Qiancai Packaging Materials Co., Ltd.	Under the control of Controlling Shareholders' close family member
Guangzhou Chenming Paper Products Company Limited	Under the control of Controlling Shareholders' close family member
The Predecessor Entity[(i)]	Effectively 100% owned by the Controlling Shareholders

(i) Following the consummation of the transfer of operations of the HPC Products Business from the Predecessor Entity to Bawang Guangzhou on 31 December 2007, the Predecessor Entity has become a related party of the Group from that date.

(a) *Recurring transactions*

(i) Production premises and office lease agreements

Bawang Guangzhou and the Predecessor Entity entered into a production premise and office lease agreement on 22 January 2008, pursuant to which Bawang Guagnzhou leased from the Predecessor Entity the production premise and office building with a total floor area of 16,735 square metres. The term of the lease under the agreement is 3 years with a fixed monthly rental payable of RMB184,083, commencing from 4 December 2007. Jones Lang LaSalle Sallmanns Limited, who have among their Staff Fellow of the Hong Kong Institute of Surveyors with recent experience in the location and category of rental payable being valued, has confirmed that the rental payable under this lease agreement reflects a fair and reasonable market rent for such type of property in the PRC.

(ii) Purchase of raw materials from related parties

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Guangzhou Qiancai Packaging Materials Co., Ltd.	—	1,737	4,268
Guangzhou Chenming Paper Products Company Limited	—	—	6,902

The directors have confirmed that the basis of consideration for the above purchase of raw materials from related parties is the prevailing market price.

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the HKSE.

(b) *Non-recurring transactions*

(i) Advertising fee paid by a related party on behalf of the Group

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Actual Reality Inc.	7,485	18,416	4,225

(ii) Trade receivables collected by the Controlling Shareholders on Bawang Guangzhou's behalf/ (repayment of Trade receivables collected by the Controlling Shareholders)

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
CHEN Qiyuan	16,016	119,181	(2,505)

(iii) Net short-term advances from / (repayment of advances to) Controlling Shareholders and the Predecessor Entity

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
CHEN Qiyuan	(6,337)	(19,017)	11,188
Predecessor Entity	—	5,150	(5,016)

(iv) Consideration payable to Controlling Shareholders in respect of acquiring the equity interests of Bawang Guangzhou

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
CHEN Qiyuan	—	91,461	—

(v) Sale of non-HPC Products Business related equipment to the Predecessor Entity

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Predecessor Entity	—	—	691

(vi) Short-term advance to Predecessor Entity

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Predecessor Entity	—	—	20,213

(vii) Repayment of advance from Predecessor Entity

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Predecessor Entity	—	—	20,850

During the relevant period, the Controlling Shareholders facilitated the treasury arrangements among the companies comprising the Group and the Predecessor Entity. The Controlling Shareholders made advances to the companies which required funding or made drawings from the companies with excess cash. The transactions between the Controlling Shareholders and the companies comprising the Group and the Predecessor Entity as listed in Note 22(b)(ii), Note 22(b)(iii), Note 22(b)(iv), Note 22(b)(vi) and Note 22(b)(vii) represent the transactions incurred according to the treasury arrangement.

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business.

The directors have confirmed that the transactions as listed in Note 22(b)(i), 22(b)(ii) and 22(b)(iii) will not be continued in the future after the listing of the Company's share on the HKSE.

The transactions listed in Note 22(b)(iv), 22(b)(v), 22(b)(vi) and 22(b)(vii) are one-off transactions and the directors have confirmed that these transactions will not be continued in the future after the listing of the Company's shares on the HKSE.

(c) ***Balances with related parties***

As at the respective balance sheet dates, the Group had the following balances with related parties:

(i) Trade and other receivables

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Non-trade related			
CHEN Qiyuan	16,016	135,197	132,692
Predecessor Entity	—	—	54
	16,016	135,197	132,746

(ii) Trade and other payables

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Non-trade related			
CHEN Qiyuan	20,685	93,129	104,317
Actual Reality Inc.	15,407	32,567	36,792
Predecessor Entity	—	5,150	134
Trade related			
Guangzhou Qiancai Packaging Materials Co., Ltd.	—	—	601
Guangzhou Chenming Paper Products Company Limited	—	—	2,498
Total	36,092	130,846	144,342

The above non-trade related balances are unsecured, interest free and have no fixed terms of repayment. The directors confirm that these balances will be collected / settled as of 26 June 2009.

Pursuant to the Reorganisation, amounts due to related parties with an aggregate carrying amount totalling RMB13,136,000 and amounts due from related parties amounting to RMB5,150,000 were retained by the Predecessor Entity and had been reflected as deemed appropriation to equity holders of the Company for the year ended 31 December 2007 (Section A).

(d) ***Key management personnel compensation***

Remuneration for key management personnel, including the amounts paid to the Group's directors as disclosed in Note 6 and the individuals with highest emoluments as disclosed in Note 7, is as follows:

	For the year ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	470	787	2,408
Contributions to defined contribution retirement plan	132	220	287
Total	602	1,007	2,695

Total remuneration is included in "staff costs" (Note 4(b)).

23 Significant accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The following principal accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future years is adjusted if there are significant changes from previous estimation.

(b) *Impairments*

(i) In considering the impairment losses that may be required for certain property, plant and equipment and lease prepayments, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

(ii) Impairment loss for bad and doubtful debts are assessed and provided based on the directors' regular review of aging analysis and evaluation of collectibility. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in future years.

24 Possible impact of amendments, new standards and interpretations issued but not yet effective for the relevant period

Up to the date of issue of this report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the relevant period and which have not been adopted in this report.

Of these developments, the following relate to matters that may be relevant to the Group's operations and the Financial Information:

		Effective for accounting periods beginning on or after
IAS 1 (revised)	*Presentation of Financial Statements*	1 January 2009
IFRS 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

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

1 Dividends declared after 31 December 2008

On 7 January and 23 May 2009, the Company declared dividends of HK$166,666,667 (equivalent to RMB147,000,000) and HK$116,650,000 (equivalent to RMB102,679,996) to its shareholder. The amounts declared were fully paid in January and May 2009 respectively.

2 Pre-listing arrangements

As certain amounts due to the related parties of the Group (please refer to Note 22(c) for details) are denominated in foreign currencies such as Hong Kong dollars and U.S. dollars, the Group facilitated the following pre-listing arrangements to settle those amounts prior to the listing of the Company's shares on the HKSE:

- an agreement entered into between Bawang Trading, a subsidiary of the Company, and China Merchants Bank Co., Ltd. ("China Merchants Bank") on 12 June 2009, pursuant to which China Merchants Bank agreed to provide Bawang Trading with a credit facility of up to HK$180 million (the "Credit Facility") to settle the abovementioned amounts due to the related parties denominated in foreign currencies; and
- as a condition of the Credit Facility,
  - Bawang Group Limited, an entity wholly owned by the Controlling Shareholders, provided a pledge of assets in favour of China Merchants Bank in the full amount of the Credit Facility on 12 June 2009. Such pledge will be released, upon the earlier of (i) the listing of the Company's shares on the HKSE or (ii) 31 July 2010; and
  - the Company provided a guarantee on 12 June 2009 in favour of China Merchants Bank in respect of the above Credit Facility, which will become effective upon the listing of the Company's shares on the HKSE.

3 Capitalisation issue

Pursuant to the resolutions of the Company's shareholder passed on 20 May 2009, conditional on the share premium account of the Company being credited as a result of the Global Offering, the Directors be and are hereby authorised to allot and issue a total of 2,099,990,000 shares, by way of capitalisation of the sum of HK$209,999,000 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"), credited as fully paid at par to the Shareholders as appearing on the register of members of the Company on the date of the Prospectus.

E BALANCE SHEET OF THE COMPANY

The Company was incorporated on 11 December 2007 with an authorised share capital of US$50,000, and issued a total of 1 share at nominal value of US$1 to Fortune Station Limited, its immediate and ultimate holding company as part of the Reorganisation as detailed in the section headed "Statutory and General Information" in Appendix V to the Prospectus. On 10 December 2008, the Company repurchased its existing issued share and increased its authorised share capital by HK$1,000 by issuing 10,000 shares of HK$0.10 par value each to Fortune Station Limited as detailed in Note 17(i) of Section C. The Company has not carried out any business other than investment holding since the date of its incorporation.

		At 31 December 2007	At 31 December 2008
		RMB'000	RMB'000
Assets			
Investment in subsidiary		—	—
Prepayment for IPO listing costs		—	1,582
Amounts due from related parties		—	194
Total asset		—	1,776
Liabilities			
Amounts due to related parties	(a)	—	9,344
Other payables		80	25
Total liabilities		80	9,369
Net assets		(80)	(7,593)
Capital and reserves			
Paid-in capital		—	—
Translation reserve		—	4
Accumulated losses		(80)	(7,597)
Total equity		(80)	(7,593)

Note:

(a) Amounts due to related parties represent the expenses paid by Controlling Shareholders on the Company's behalf.

F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2008.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong