As a result of the change in our majority shareholding on August 15, 2008, we have included in this prospectus (i) the accountants' report of Shanghai Boshiwa Group, our predecessor and principal operating subsidiary, for the period from January 1, 2007 through August 14, 2008 as set forth in Appendix IB of this prospectus; (ii) the accountants' report of our Group under our current corporate structure for the period from August 15, 2008 through June 30, 2010 as set forth in Appendix IA of this prospectus; and (iii) a separate accountants' report of Shanghai Boshiwa for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 as set forth in Appendix IC of this prospectus. The accountants' reports have all been prepared in accordance with IFRS.

The discussion contained in this section is based on the consolidated financial information of Shanghai Boshiwa as it was our operating entity throughout the three years ended December 31, 2009 and the six months ended June 30, 2010. We believe that such information will help you compare our historical operating results before and after our change in control in August 2008. As such discussion is based on the financial information of Shanghai Boshiwa only, it may not sufficiently reflect all aspects of our business during the three years ended December 31, 2009 and the six months ended June 30, 2010. In particular, the consolidated financial information of Shanghai Boshiwa as set forth in Appendix IC of this prospectus does not fully reflect our operations and financial position under our Group's current corporate structure since the change in our majority shareholding on August 15, 2008. See "—Basis of Preparation" below for a summary of the principal differences between the operating results of our Group and those of Shanghai Boshiwa. You should read the discussion in this section in conjunction with the consolidated financial information together with the accompanying notes thereto included in Appendices IA, IB and IC of this prospectus.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in "Risk Factors".

OVERVIEW

We are a leading and fast-growing developer and retailer of children's products in China. We design, source and market our products under our proprietary brands, such as Boshiwa, Baby^2 and Dr. Frog, and our licensed brands, such as Harry Potter, Prince of Tennis, NBA, Barcelona, Juventus, Manchester United, Bob the Builder and Thomas and Friends. We also distribute a wide range of children's products with well-known brands for Chinese and international manufacturers through our diversified sales channels in China.

We have an integrated business model where we participate in key stages of the product life cycle, such as product design and development, brand promotion and management, and sales and marketing. We currently outsource the manufacturing of all our products to domestic OEMs and overseas ODMs, which are Independent Third Parties. We believe that this strategy helps enable us to avoid direct exposure to operational and financial risks and expenses of operating production facilities and managing labor.

We have a diversified sales platform, which enables us to meet growing and different customer demand. We sell our products through department store concessions, street shops, Boshiwa 365 stores, flagship stores and online stores. We have department store concessions in 28 provinces and more than 140 cities in China, including premium commercial locations in most of the provincial capital cities. Our street shops are primarily located near affluent residential neighborhoods in cities where there is strong demand for high-quality children's products. Our Boshiwa 365 stores are located inside large shopping malls and carry products for children from newborn to three years of age. Our flagship stores are approximately 1,500 to 3,000 square meters in area and carry products for children from newborn to 14 years of age at one location. We conduct our sales either directly to retail customers through our self-managed retail outlets or on a wholesale basis to authorized third-party retailers and distributors. As of June 30, 2010, we had 1,062 department store concessions, 24 street shops, 33 Boshiwa 365 stores and seven flagship stores.

We have achieved significant growth in revenue and net profit in recent years. Our revenue increased from RMB211.8 million for the year ended December 31, 2007 to RMB325.6 million for the year ended December 31, 2008 and to RMB630.2 million for the year ended December 31, 2009, representing a CAGR of 72.5% from 2007 to 2009. Our net profit increased from RMB17.8 million for the year ended December 31, 2007 to RMB63.3 million for the year ended December 31, 2008 and to RMB129.4 million for the year ended December 31, 2009, representing a CAGR of 169.8% from 2007 to 2009. Our revenue and net profit increased from RMB221.0 million and RMB40.9 million for the six months ended June 30, 2009 to RMB594.9 million and RMB146.2 million for the six months ended June 30, 2010, representing growth rates of 169.3% and 257.2%, respectively.

We disposed of five subsidiaries in August, September and October 2008. The business operations conducted by those subsidiaries included manufacturing apparel and accessories on an OEM basis for various brands in China and Japan and driver training.

BASIS OF PREPARATION

This prospectus includes three accountants' reports set forth in Appendices IA, IB and IC, respectively.

- Appendix IA sets forth the Accountants' Report of our Group under our current corporate structure for the period from August 15, 2008 to December 31, 2008, for the year ended December 31, 2009 and for the six months ended June 30, 2009 and 2010 and as of December 31, 2008 and 2009 and June 30, 2010.

- Appendix IB sets forth the Accountants' Report of Shanghai Boshiwa Group, our predecessor, for the year ended December 31, 2007 and for the period from January 1, 2008 to August 14, 2008 and as of December 31, 2007 and August 14, 2008.

- Appendix IC sets forth the Accountants' Report of Shanghai Boshiwa for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 and as of December 31, 2007, 2008 and 2009 and June 30, 2010.

On August 15, 2008, Great Dragon became the majority shareholder of Shanghai Boshiwa after acquiring a 90% interest in it. Great Dragon subsequently acquired the remaining 10% interest in Shanghai Boshiwa in August 2008. On September 3, 2009, Great Dragon transferred all of the equity interests in Shanghai Boshiwa to Pacific Leader, our indirectly wholly owned subsidiary, and we have owned 100% of Shanghai Boshiwa since then.

The transfer of all of the equity interests of Shanghai Boshiwa from Great Dragon to us has been accounted for as a reorganization of entities under common control, using the principle of merger accounting. As a result of the change in majority shareholding in Shanghai Boshiwa on August 15, 2008, we have included in this prospectus an accountants' report for the period from January 1, 2007 through August 14, 2008 as set forth in Appendix IB, which includes the financial information of Shanghai Boshiwa Group, our predecessor, and our accountants' report for the period from August 15, 2008 through June 30, 2010 as set forth in Appendix IA, which includes the financial information at our Group under our current corporate structure.

To assist you in understanding our performance, we have also included a separate accountants' report of Shanghai Boshiwa for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 and as December 31, 2007, 2008 and 2009 and June 30, 2010 as set forth in Appendix IC. Shanghai Boshiwa has been our principal operating entity during the three years ended December 31, 2009 and the six months ended June 30, 2010. We believe that including such information will help you compare our historical operating results for the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 and gain a better understanding of our business and financial condition.

The discussion contained in this section is based on the consolidated financial information of Shanghai Boshiwa as it was our operating entity throughout the three years ended December 31, 2009 and the six months ended June 30, 2010. Except where the context indicates otherwise, when we refer to "our revenue," "our sales," "our cost of sales," "our assets," "our liabilities", "our net cash flows" and other financial data and operating statistics, we mean the consolidated revenue, sales, cost of sales, assets, liabilities, net cash flows and other financial data and statistics of Shanghai Boshiwa.

The consolidated financial information of our Group differ from those of Shanghai Boshiwa in the following principal respects:

- Our Group incurred administrative expenses of RMB17.7 million for the six months ended June 30, 2010, which mainly included professional fees relating to the Global Offering. Our Group incurred finance costs of RMB6.8 million and foreign exchange gains of RMB0.5 million, both of which were as the result of a loan from BOCOM Holdings dominated in Hong Kong dollars. See "—Loan from BOCOM Holdings" below. Those costs were not reflected in the consolidated financial statements of Shanghai Boshiwa.

- Our Group recognized withholding income tax of RMB1.7 million for the six months ended June 30, 2009 for dividends to be distributed to non tax resident enterprises in respect of profits earned by the PRC subsidiaries since January 1, 2008, and provided income tax of RMB6.1 million for dividends declared to the owners of the Company during the six months ended June 30, 2010. These expenses were not reflected in the consolidated financial statements of Shanghai Boshiwa.

- Our Group recognized income tax payable of RMB13.1 million in respect of dividends declared of RMB300 million as of June 30, 2010, which were not reflected in the consolidated financial statement of Shanghai Boshiwa.

- As at June 30, 2010, our Group had RMB0.7 million more in trade and other receivables, RMB0.4 million more in cash and bank balances, RMB18.4 million more in trade and other payables, RMB40.3 million less in dividend payable and RMB3.3 million less in amount due to intermediate holding company than Shanghai Boshiwa did.

- For the six months ended June 30, 2010, our Group recorded RMB96.0 million more in bank loans and RMB18.4 million corresponding interest in other payables than Shanghai Boshiwa did. This amount reflected the amount our Group had drawn down under a HK$110.0 million loan from BOCOM Holdings on December 10, 2009.

- For the six months ended June 30, 2010, our Group authorized the distribution of RMB257.0 million in dividends, of which RMB47.2 million was paid, while Shanghai Boshiwa had RMB300.0 million of authorized dividends, of which RMB50.0 million was paid.

- For the six months ended June 30, 2010, Shanghai Boshiwa recorded RMB136.5 million more in capital contributions from shareholders than our Group did. This amount reflects our Group's contribution to Shanghai Boshiwa. In the same period, we recorded RMB120.6 million in capital contributions.

- For the six months ended June 30, 2010, our Group's net cash generated from operating activities was RMB12.6 million less than that of Shanghai Boshiwa, our net cash generated from financial activities was RMB9.5 million more than that of Shanghai Boshiwa.

- Our Group made provisions of RMB3.5 million and RMB1.3 million for withholding income tax for dividends declared for the years ended December 31, 2008 and 2009, respectively. Shanghai Boshiwa did not have such provision for these years.

- There are certain administrative expenses incurred by our Group, which amounted to RMB1.4 million for the year ended December 31, 2009. These expenses are not reflected in the consolidated financial statements of Shanghai Boshiwa.

- We recognized deferred tax liabilities of RMB3.5 million and RMB4.9 million as of December 31, 2008 and 2009, respectively, which are not reflected in the consolidated financial statements of Shanghai Boshiwa.

- As of December 31, 2009, we had RMB3.5 million more in bank balances and cash than Shanghai Boshiwa did.

- For the year ended December 31, 2009, our Group's net cash generated from operating activities was RMB1.5 million less than that of Shanghai Boshiwa.

- For the year ended December 31, 2009, our Group's net cash generated from investing activities was RMB0.7 million more than that of Shanghai Boshiwa.

- For the year ended December 31, 2009, our Group recorded RMB72.6 million more in bank loans than Shanghai Boshiwa did. This amount reflected the amount our Group drew down under a HK$110 million loan from BOCOM Holdings on December 10, 2009.

- For the year ended December 31, 2009, Shanghai Boshiwa recorded RMB68.3 million more in capital contributions from shareholders than our Group did. This amount reflects our Group's contribution to Shanghai Boshiwa. We funded this shareholder contribution principally with the proceeds from the HK$110 million loan from BOCOM Holdings.

FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including the following:

Economic development and growth in per capita disposable income and consumer spending in the PRC

Our financial condition and results of operations are affected by the macro-economic conditions and the disposable income levels of consumers in the PRC. For the three years ended December 31, 2009 and the six months ended June 30, 2010, we derived substantially all of our revenue from PRC domestic sales. According to the National Bureau of Statistics of China data supplied by the Frost & Sullivan Report, the PRC economy experienced rapid growth from 2000 to 2009 and achieved a CAGR of approximately 14.5% in GDP growth. From 2000 to 2009, the per capita annual disposable income of urban households in China grew at a CAGR of approximately 11.9% and consumer spending as measured by total retail sales value grew at a CAGR of approximately 13.8%. We expect that our results of operations will continue to depend on the growth of the PRC economy, the levels of disposable income and consumer spending in the PRC, particularly in the urban areas.

Brand recognition

We believe that brand recognition is important to customers' purchasing decisions. Our business and operating results have been and will continue to be affected by our ability to maintain and enhance recognition of our brands. We currently offer a wide range of children's products primarily under eleven brands, among which Boshiwa, Baby^2 and Dr. Frog are our self-owned brands and Harry Potter, Prince of Tennis, NBA, Barcelona, Juventus, Manchester United, Bob the Builder and Thomas and Friends are our licensed brands. As we gradually built our brand names and gained brand recognition in the children's product market, revenue derived from our self-owned brands increased from approximately RMB39.1 million for 2007 to approximately RMB88.4 million for 2008 and then to approximately RMB323.6 million for 2009, and our revenue derived from our licensed brands increased from approximately RMB50.2 million for 2007 to approximately RMB131.7 million for 2008 and then to approximately RMB216.8 million for 2009. Our revenue derived from self-owned brands and licensed brands was RMB250.4 million and RMB163.2 million for the six months ended June 30, 2010, compared with RMB110.6 million and RMB88.5 million for the six months ended June 30, 2009. In addition, as we have a "one-stop" shop model and sell a wide range of children's products at one location, we believe that high recognition of our existing brands helps to attract large customer volumes to our retail outlets and also boost sales of our products under other brands sold at the same location.

Expansion and performance of our retail network

Our ability to increase sales is affected by the number of retail outlets in our retail network, our sales per square meter and our cooperation with authorized third-party retailers who manage some of our retail outlets.

As of December 31, 2007, 2008 and 2009 and June 30, 2010, we had a total of 245, 585, 890 and 1,126 retail outlets, respectively. In 2007 and 2008, we only had department store concessions and Boshiwa 365 stores. In 2009, we explored new sales channels and opened street shops and flagship stores. Our revenue increased significantly as the number of our retail outlets increased in the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010. Our sales per square meter per day increased from approximately RMB26.4 for 2007 to approximately RMB30.1 for 2008, approximately RMB37.8 for 2009 and approximately RMB47.7 for the six months ended June 30, 2010. Our retail outlets are either managed by us or by authorized third-party retailers. We sell our products to authorized third-party retailers on a wholesale basis at a discount from retail prices. We often choose to work with local authorized third-party retailers that have the requisite local market knowledge and management experience when we enter into new geographic markets. For the six months ended June 30, 2010, 594 out of 1,126 of our retail outlets were operated by authorized third-party retailers, which contributed approximately 53.4% of our revenue for that period. We intend to continue to work with authorized third-party retailers to further expand our sales network. Our ability to cooperate with our existing authorized third-party retailers and attract additional qualified authorized third-party retailers will impact our ability to further expand our sales network.

Seasonality

Our results of operations are affected by seasonal fluctuations in demand for children's products. We experience higher sales from October through the Chinese New Year holidays, in particular during the fourth quarter. In these periods we sell apparel, footwear and accessories for the autumn and winter seasons, which normally command higher unit prices compared to our offerings for the spring and summer seasons. Unexpected and abnormal changes in weather may also affect the sales of our products that are timed for release in a particular season. Furthermore, our sales are also affected by national holidays, such as the Chinese New Year holidays in the early spring, the Labor Day holiday in early May and the National Day holidays in early October. We usually record higher sales during these holidays. As a result, we believe that comparisons of our operating results and net profit over any interim periods may not be meaningful.

Price of raw materials

We outsource production of all of our children's products to independent third-party manufacturers. Our OEM and ODM third-party manufacturers are responsible for procurement of the raw materials they require in their production, and they primarily depend on third-party suppliers for their raw material requirements. Our business and profitability depend in part on the ability of our OEM third-party manufacturers to obtain sufficient quantities of the necessary raw materials in proper quality and at commercially acceptable prices and in a timely manner. The raw materials required for manufacturing our products are primarily cotton, chemical fibers and wool. In the past, we have generally been able to pass on increased costs of raw materials to our customers, and such increases have not impacted our margins. If we are unable to pass on the increased costs to our customers in the future, our business, financial condition and results of operations may be materially and adversely affected. See also "Risk Factors—Risks Relating to Our Business—Increase in commodity prices will increase purchasing costs for our products and may reduce our profitability."

Competition

Our results of operations and financial condition are affected by the competitive landscape of the children's product market in the PRC. The children's product industry in the PRC is highly competitive with an increasing number of local and international players. Industry players compete with one another based on, among other things, brand recognition, product variety, product design, product quality and price. There is no assurance that we will be able to compete with others in the future in light of the changing and competitive market environment. Some of our competitors may have greater financial resources, stronger distribution capabilities and greater brand recognition than we do.

We expect that the competition we face in the children's product business will further intensify, principally due to the entry of new foreign and domestic children's product brands and the increase in the number of children's product retailers in China. As a result, our ability to maintain to further increase our profitability will largely depend on our ability to compete effectively by reacting rapidly to market trends and differentiating ourselves through our nationwide sales channels and extensive and diversified product portfolio.

Disposal of our manufacturing business

We had a manufacturing business in 2007 and part of 2008, which was conducted by Shanghai Ronghua, Shanghai Rongli, Shanghai Rongfeng and Rongchen Knitting. These subsidiaries primarily manufactured apparel and accessories on an OEM basis for various brands in China and Japan. We disposed of these subsidiaries in August and September 2008. Proceeds from our disposal of those subsidiaries have been used to fund our continuing operations. We currently outsource the production of all of our products to domestic OEMs and overseas ODMs, which are Independent Third Parties. We believe that this strategy enables us to avoid direct exposure to operational and financial risks and expenses of operating production facilities and managing labor. Our discontinued operations also included our driver training business conducted by Rongchen Driver Training, which we disposed of in 2008 because we wanted to focus on our children's product business.

The disposal of our manufacturing business affected our financial position in certain respects. When we had our manufacturing business, our customers primarily settled payment to us by letter of credit or telegraphic transfer. As a result, our trade receivables turnover days and balances were relatively low. Our inventory turnover days were also longer before the disposal of our manufacturing business as we needed to keep sufficient raw materials and finished goods in stock.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those that require management to exercise judgment and make estimates that yield materially different results if management were to apply different assumptions or make different estimates. Our financial statements have been prepared in accordance with IFRS. IFRS requires that we adopt accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the purpose of giving a true and fair view of our results and financial condition. We believe the most complex and sensitive judgments, because of their significance to our results of operations and financial condition, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas could differ from our estimates. The critical accounting policies we have adopted are described below.

Revenue and other income recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable from goods sold and services provided in the normal course of business, net of related sales taxes.

Revenue from sales of goods is recognized when goods are delivered and title has passed.

Revenue from OEM services is recognized when the services are provided.

We provide discounts to customers in our customer loyalty program. Revenue from sales to these customers is recognized at the net amount after deducting the discount.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants are recognized in profit or loss on a systematic basis over the periods in which we recognize as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to us with no future related costs are recognized in profit or loss in the period in which they become receivable.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

We assess periodically if the inventories have suffered any impairment. Our management reviews the inventory levels, sales of inventory in the period and inventory composition at each balance sheet date so as to determine whether allowance for obsolete and slow-moving inventories is required to be made. The management estimates the net realizable value for such inventories based on the past sales performance, any planned promotional activities and general consumer trends.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired.

In making such judgments, management considered detailed procedures, which have been in place to monitor this risk as a significant proportion of our working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, we take into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability, specific allowance is only made for trade receivables that are unlikely to be collected.

Trademark

Trademarks acquired separately and with indefinite useful life are carried at cost less any subsequent accumulated and impairment losses.

At the end of each reporting period, we review the carrying amounts of our trademarks to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, trademarks not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

RESULTS OF OPERATIONS

The following table sets forth our results of operations for the periods indicated:

	Year ended December 31,							Six months ended June 30,	
	2007		2007	2008		2008	2009	2009	2010
	Discontinued operations	Continuing operations	Total	Discontinued operations	Continuing operations	Total			
	(RMB'000)								
								(unaudited)	
Revenue	118,269	93,505	211,774	82,048	243,553	325,601	630,178	220,956	594,934
Cost of sales	(97,435)	(44,245)	(141,680)	(79,195)	(105,456)	(184,651)	(363,853)	(131,015)	(332,041)
Gross profit	20,834	49,260	70,094	2,853	138,097	140,950	266,325	89,941	262,893
Other income	192	1, 043	1,235	13,412	613	14,025	6,922	6,749	19,542
Distribution and selling expenses	(859)	(25,453)	(26,312)	(759)	(45,107)	(45,866)	(71,910)	(31,111)	(63,435)
Administrative and general expenses	(9,473)	(11,815)	(21,288)	(10,420)	(10,078)	(20,498)	(22,679)	(8,175)	(19,420)
Finance costs	(176)	(2,796)	(2,972)	(500)	(6,402)	(6,902)	(5,765)	(2,800)	(4,634)
Shares of profits of associates	2,632	-	2,632	1,727	-	1,727	-	-	-
Profit before tax	13,150	10,239	23,389	6,313	77,123	83,436	172,893	54,604	194,946
Income tax expense	(2,409)	(3,197)	(5,606)	(144)	(20,008)	(20,152)	(43,462)	(13,674)	(48,764)
Profit after tax and total comprehensive income for the year/period	10,741	7,042	17,783	6,169	57,115	63,284	129,431	40,930	146,182
Attributable to:									
Owners of Shanghai Boshiwa			14,230			67,193	129,431	40,930	146,182
Minority interests			3,553			(3,909)	-	-	-

SELECTED INCOME STATEMENT ITEMS

Revenue

Revenue represents the net amounts received and receivable for goods sold and services provided to outside customers. We derive substantially all of our revenue from sales of children's products.

The table below sets forth our revenue by product category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007	% of Revenue	2008	% of Revenue	2009	% of Revenue	2009	% of Revenue	2010	% of Revenue
							(unaudited)			
	(RMB'000 except percentages)									
Revenue										
Children's apparel, footwear and accessories	93,501	44.2	227,555	69.9	569,115	90.3	200,309	90.7	449,339	75.5
Other children's products	-	-	15,985	4.9	61,043	9.7	20,643	9.3	145,595	24.5
Others(1)	4	0.0	13	0.0	20	0.0	4	0.0	-	-
Discontinued operations(2)	118,269	55.8	82,048	25.2	-	-	-	-	-	-
Total	211,774	100.0	325,601	100.0	630,178	100.0	220,956	100.0	594,934	100.0

Notes:

(1) Others primarily include sales of sample products provided by our OEM service providers.

(2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

The table below sets forth our revenue by sales channel for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2007	% of Revenue	2008	% of Revenue	2009	% of Revenue	2009	% of Revenue	2010	% of Revenue
							(unaudited)			
	(RMB'000 except percentages)									
Revenue										
Self-managed retail outlets	43,704	20.6	131,421	40.4	247,485	39.3	96,949	43.9	226,518	38.1
Authorized third-party retail outlets	49,797	23.6	99,760	30.6	322,316	51.1	107,687	48.8	317,925	53.4
Wholesale distribution	-	-	11,763	3.6	49,477	7.9	13,133	5.9	38,774	6.5
Online stores	-	-	596	0.2	10,880	1.7	3,183	1.4	11,717	2.0
Others(1)	4	0.0	13	0.0	20	0.0	4	0.0	-	-
Discontinued operations(2)	118,269	55.8	82,048	25.2	-	-	-	-	-	-
Total	211,774	100.0	325,601	100.0	630,178	100.0	220,956	100.0	594,934	100.0

Notes:

(1) Others primarily include sales of sample products provided by our OEM service providers.

(2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

We derived more revenue from authorized third-party managed retail outlets in the six months ended June 30, 2010 than from self-managed retail outlets primarily because our authorized third-party managed retail outlets during this period included certain flagship stores, Boshiwa 365 stores and street shops that were large and had higher sales per store. For the year ended December 31, 2009, we derived more revenue from authorized third-party retail outlets than from self-managed retail outlets primarily because we opened 228 new authorized third-party retail outlets in 2009, and these authorized third-party retail outlets included certain flagship stores and street shops that were large and had higher sales per store. By comparison, we opened 77 new self-managed retail outlets in 2009. We had 478 authorized third-party retail outlets and 412 self-managed retail outlets as of December 31, 2009.

Cost of sales

Before we disposed of our manufacturing business in 2008, our cost of sales for children's products consisted of costs for purchasing finished goods, cost of raw materials, labor costs, depreciation and other costs. After we disposed of our manufacturing business, our cost of sales only consists of costs for purchasing finished goods. Our cost of sales is primarily affected by our product mix.

The table below sets forth our cost of sales by product category for the periods indicated.

	Years ended December 31,						Six months ended June 30,			
	2007	% of Cost of sales	2008	% of Cost of sales	2009	% of Cost of sales	2009 (unaudited)	% of Cost of sales	2010	% of Cost of sales
	(RMB'000 except percentages)									
Cost of sales										
Children's apparel, footwear and accessories	44,245	31.2	93,613	50.7	315,316	86.7	112,623	86.0	227,759	68.6
Other children's products	-	-	11,843	6.4	48,529	13.3	18,392	14.0	104,282	31.4
Others(1)	-	-	-	-	8	0.0	-	-	-	-
Discontinued operations(2)	97,435	68.8	79,195	42.9	-	-	-	-	-	-
Total	141,680	100.0	184,651	100.0	363,853	100.0	131,015	100.0	332,041	100.0

Notes:

(1) Our cost relating to sales of sample products was nil because the sample products were provided to us for free by our OEM service providers. Our cost of sales for 2009 under "Others" consisted of cost of certain materials purchased by our design department which we later sold.

(2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

	Year ended December 31,						Six months ended June 30,			
	2007	% of Cost of sales	2008	% of Cost of sales	2009	% of Cost of sales	2009	% of Cost of sales	2010	% of Cost of sales
							(unaudited)			
	(RMB'000 except percentages)									
Cost of sales										
Self-managed retail outlets . . .	18,942	13.4	47,233	25.6	111,264	30.6	44,507	34.0	98,007	29.5
Authorized third-party retail outlets	25,303	17.8	48,556	26.3	207,393	57.0	72,073	55.0	194,076	58.4
Online stores	-	-	363	0.2	8,590	2.4	2,466	1.9	8,556	2.6
Wholesale distribution	-	-	9,304	5.0	36,598	10.0	11,969	9.1	31,402	9.5
Others(1)	-	-	-	-	8	0.0	-	-	-	-
Discontinued operations(2) . . .	97,435	68.8	79,195	42.9	-	-	-	-	-	-
Total	141,680	100.0	184,651	100.0	363,853	100.0	131,015	100.0	332,041	100.0

Notes:

(1) Our cost relating to sales of sample products was nil because the sample products were provided to us for free by our OEM service providers. Our cost of sales for 2009 under "Others" consisted of cost of certain materials purchased by our design department which we later sold.

(2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

Gross profit and gross profit margin

Our gross profit is our revenue less cost of sales. Gross profit margin is our gross profit divided by revenue. Our gross profit margin is affected by discounts we offer to retail customers as part of our promotional efforts, the relative proportions of direct sales to retail customers from our self-managed retail outlets and our sales to authorized third-party retailers represent to our total sales, and our product mix. Our sales to authorized third-party retailers are at a discount from our direct sales to retail customers from our self-managed retail outlets. Our profit margin for children's apparel, footwear and accessories is higher than our profit margin for other children's products.

The table below sets forth our gross profit and gross profit margin by product category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009		2010	
							(unaudited)			
	Gross profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB' 000)	(%)	(RMB' 000)	(%)	(RMB' 000)	(%)	(RMB' 000)	(%)	(RMB' 000)	(%)
Product category										
Children's apparel, footwear and accessories	49,256	52.7	133,942	58.9	253,799	44.6	87,686	43.8	221,580	49.3
Other children's products	-	-	4,142	25.9	12,514	20.5	2,251	10.9	41,313	28.4
Others(1)	4	100.0	13	100.0	12	60.0	4	100.0	-	-
Discontinued Operations(2)	20,834	17.6	2,853	3.5	-	-	-	-	-	-
Total	70,094	33.1	140,950	43.3	266,325	42.3	89,941	40.7	262,893	44.2

Notes:

(1) Others primarily include gross profit relating to our sales of sample products.

(2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

We disposed of our manufacturing business and driver training business in August, September and October 2008, and began to focus our resources on the design, procurement and sales and marketing of children's products. Our gross profit margin for children's apparel, footwear and accessories increased in 2008 compared with 2007 primarily because we were able to command a higher average selling price due to the change in our business model. Our gross profit margins for children's apparel, footwear and accessories and other children's products decreased in 2009 compared with 2008 primarily because sales to authorized third-party retailers increased significantly in 2009 compared with 2008 and our sales to authorized third-party retailers were at a discount from our sales to retail customers. Our gross profit margins for children's apparel, footwear and accessories and for other children's products both increased in the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily because we introduced new sales arrangements with some authorized third-party retailers in 2010 whereby we offer lower discounts rates to them and we are responsible for the rental and interior decoration expense for the retail outlets they operate. In addition, department stores conducted fewer promotional activities in 2010 compared with 2009 as a result of the recovery of the Chinese economy.

	Year ended December 31,						Six months ended June 30,			
	2007		2008		2009		2009 (unaudited)		2010	
	Gross profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB' 000)	(%)	(RMB' 000)	(%)	(RMB' 000)	(%)	(RMB' 000)	(%)	(RMB' 000)	(%)
Self-managed retail outlets	24,762	56.7	84,188	64.1	136,221	55.0	52,442	54.1	128,511	56.7
Authorized third-party retail outlets	24,494	49.2	51,204	51.3	114,923	35.7	35,614	33.1	123,849	39.0
Online stores	-	-	233	39.1	2,290	21.0	717	22.5	3,161	27.0
Wholesale distribution	-	-	2,459	20.9	12,879	26.0	1,164	8.9	7,372	19.0
Others(1)	4	100.0	13	100.0	12	60.0	4	100.0	-	-
Discontinued operations(2)	20,834	17.6	2,853	3.5	-	-	-	-	-	-
Total	**70,094**	**33.1**	**140,950**	**43.3**	**266,325**	**42.3**	**89,941**	**40.7**	**262,893**	**44.2**

Notes:

(1) Others primarily include gross profit from our sales of sample products.

(2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

The number of our self-managed retail outlets increased significantly from 119 as of December 31, 2007 to 335 as of December 31, 2008. Our sales increased significantly during this period and we derived most of our revenue from our self-managed retail outlets in 2008. In 2007, to promote our brand name and gain market share, we offered discounts to customers from time to time. In 2008, as our brand recognition and market coverage were well-established, we were able to raise the average selling prices for our products. As a result, our gross profit margin for self-managed retail outlets increased from 56.7% for the year ended December 31, 2007 to 64.1% for the year ended December 31, 2008.

In 2009, we expanded our sales network and offered more promotional discounts to attract consumers. In addition, our sales of other children's products increased significantly compared with 2008. The gross profit margin for our other children's products is generally lower than that for our apparel, footwear and accessories. As a result, our gross profit margin for self-managed retail outlets decreased from 64.1% for the year ended December 31, 2008 to 55.0% for the year ended December 31, 2009.

Our gross profit margin for authorized third-party retail outlets increased slightly from 49.2% for the year ended December 31, 2007 to 51.3% for the year ended December 31, 2008, primarily because we were able to command higher average selling prices in 2008 due to our established brand recognition and market share.

Our gross profit margin for authorized third-party retail outlets decreased from 51.3% for the year ended December 31, 2008 to 35.7% for the year ended December 31, 2009, primarily because we provided authorized third-party retailers more discounts in 2009 to encourage them to open additional retail outlets for us. As a result, the number of authorized third-party retail outlets increased significantly from 250 as of December 31, 2008 to 478 as of December 31, 2009. In addition, our sales of other children's products at authorized third-party retail outlets increased during this period, which also contributed to the decrease in our gross profit margin for authorized third-party retail outlets as the gross profit margin for our other children's products is generally lower than that for children's apparel, footwear and accessories.

Our gross profit margin for self-managed retail outlets increased for the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily because there were fewer promotional activities at our department store concessions due to the recovery of the Chinese economy and the increase in the percentage of high-margin other children's products in our product portfolio. Our gross profit margin for authorized third-party retail outlets increased for the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily because in 2010 we reduced by 5% to 20% the size of the discounts we offer to authorized third-party retailers that managed our street shops, Boshiwa 365 stores and flagship stores and the percentage of high-margin other children's products increased in our product portfolio. In 2010, we have introduced new sales arrangements with authorized third-party retailers that manage our street shops, Boshiwa 365 stores and flagship stores, pursuant to which we offer lower discounts to them and we enter into lease agreements with the lessors and are responsible for the rental. We are also responsible for the interior decoration expenses for the retail outlets authorized third-party retailers operate. We believe that this new arrangement enables us to maintain a consistent style and store layout across our retail outlets. It also lowers our average cost of interior decoration as we purchase furniture, fixtures and interior decoration items for a larger number of retail outlets and are able to obtain volume discount. In addition, we believe that this new arrangement allows us to negotiate more favorable leases for those retail outlets, as many of the lessors have properties nationwide and we generally have better bargaining power with these lessors than our authorized third-party retailers because we have leases with them in a number of different locations. Furthermore, this new arrangement provides us with flexibility in selecting authorized third-party retailers. If for some reason a certain authorized third-party retailer does not meet our requirements, we can more easily select another one to take over the retail outlet as we now own the lease and interior decoration. We do not have any specific plan to recover the rental and interior decoration expenses we have paid for these authorized-third party retail outlets because we are the lessee and we own the interior decoration for these authorized third-party retail outlets instead of the relevant authorized third-party retailers.

With the increasing application of this new arrangement, we expect that our net profit margin may remain stable or slightly increase, as we aim to achieve economies of scale over fixed rental costs and capital expenditures for furniture, fixtures and interior decorations, as well as more favorable terms from lessors and suppliers of furniture, fixtures and interior decorations through our expanded operations and increased bargaining power. In 2010 and the foreseeable future periods, we expect that our rental expenses and depreciation relating to the furniture, fixtures and interior decoration for these authorized third-party retail outlets may increase. In addition, our capital expenditures relating to furniture, fixtures and interior decoration may increase as well.

Our sales through online stores and distributors primarily include our imported other children's products. In 2009, our sales of FMCG through online stores and to distributors increased compared with 2008. As the gross profit margin for FMCG is generally lower than that for the other products we sell through our online stores and to distributors, our gross profit margin for online stores and sales to distributors decreased in 2009 compared with 2008. Our gross profit margins for sales through online stores and sales to distributors both increased in the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily because of increased consumer spending as the economy recovers and the increase in the percentage of high-margin other children's products in our product portfolio.

To authorized third-party retailers, we typically offer 55% to 65% discounts for apparel, footwear and accessories, and 5% to 35% discounts for other children's products. We offer our distributors 5% to 35% discounts for other children's products, including FMCGs. We offer online stores 5% to 35% discounts for other children's products, including FMCGs, and around 65% discounts for apparel, footwear and accessories.

Other income

Our other income primarily includes rental from investment properties, gain on disposal of subsidiaries and government grants. Our rental from investment properties primarily represents an annual rental of approximately RMB0.5 million paid to us by a private hospital that leased certain real property from us for its operations. Our other income in 2008 primarily represented our income received from disposal of certain of our subsidiaries that had conducted our discontinued operations. We received grants from the district government of Yangpu District in Shanghai, where our principal PRC operating subsidiary, Shanghai Boshiwa, is located, for each of the three years ended December 31, 2009 and the six months ended June 30, 2010. These grants are determined annually by Yangpu District and calculated based on our tax payments to Yangpu District.

Distribution and selling expenses

Our distribution and selling expenses primarily include concession fees and rental expenses, promotional event and advertisement expenses, salaries and benefits, packaging and transportation expenses, depreciation and amortization expenses, and other expenses. Our distribution and selling expenses generally increase in line with the increases in our sales. Our distribution and selling expenses were relatively low in 2007 in part because we derived a portion of our revenue for 2007 from our manufacturing business. After we outsourced the manufacturing of all our products and began to focus on the design, marketing and sales of children's products in 2008, our distribution and selling expenses increased as a result. We expect that our distribution and selling expenses will continue to increase in line with the increases in our sales as we further expand our business. Commercial rental rates were relatively stable from 2007 to 2009. Due to the global financial crisis, commercial rental rates declined in 2008 compared with 2007. Commercial rental rates in 2009 increased compared with 2008, but were still lower compared with 2007. Our concession fees and rental expenses increased from RMB12.1 million for 2007 to RMB21.7 million for 2008 and RMB31.1 million for 2009, primarily due to the increase in the numbers of our self-managed retail outlets. Commercial rental rates generally increased in the six months ended June 30, 2010 compared with the six months ended June 30, 2009 due to the continued recovery of the Chinese economy. As a result of our increased scale, we were able to secure favorable rental rates and our overall rental rates in the first six months of 2010 remained comparable to 2009 rates. Our concession fees and rental expenses increased from RMB11.7 million for the six months ended June 30, 2009 to RMB29.4 million for the six months ended June 30, 2010 due to the increase in our total number of retail outlets and our change in policy in 2010 when we began to pay the rental expenses for our street shops, Boshiwa 365 stores and flagship stores operated by authorized third-party retailers. Most of our concessionaire agreements are for one-year terms, and approximately 45% of them will expire by December 31, 2010 and the remaining 55% by December 31, 2011. If we are unable to renew our existing concessionaire agreements on the same terms upon their expiration, our concession fees and our distribution and selling expenses may increase as a result.

The table below sets forth a breakdown of our distribution and selling expenses for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2007	% of revenue	2008	% of revenue	2009	% of revenue	2009	% of revenue	2010	% of revenue
							(unaudited)			
	(RMB'000 except percentages)									
Concession fees and rental expenses	12,099	5.7	21,654	6.7	31,056	4.9	11,703	5.3	29,378	4.9
Promotional event and advertisement	3,226	1.5	3,456	1.1	15,314	2.4	6,912	3.1	10,469	1.8
Salaries and benefits	5,707	2.7	11,857	3.6	13,789	2.2	6,975	3.1	12,924	2.2
Packaging and transportation expenses	1,609	0.7	2,132	0.7	3,306	0.5	1,683	0.8	2,676	0.4
Depreciation and amortization	780	0.4	2,055	0.6	2,957	0.5	1,277	0.6	2,700	0.5
Others(1)	2,032	1.0	3,953	1.2	5,488	0.9	2,561	1.2	5,288	0.9
Expenses of disposed subsidiaries	859	0.4	759	0.2	-	-	-	-	-	-
Total	26,312	12.4	45,866	14.1	71,910	11.4	31,111	14.1	63,435	10.7

Note:

(1) Others primarily include travel expenses, consumables for the operation of our retail outlets, meeting expenses and utilities.

Administrative and general expenses

Administrative and general expenses primarily consist of salaries and benefits, depreciation and amortization expenses, research and development expenses, advertisement and exhibition expenses, professional fees and others (which primarily consists of royalties and license fees), as well as expenses of disposed subsidiaries. Others under our administrative and general expenses primarily include allowance for doubtful debt, travel and transportation expenses, training and recruiting expenses, utilities and telecommunications expenses.

The table below sets forth a breakdown of our administrative and general expenses for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2007	% of revenue	2008	% of revenue	2009	% of revenue	2009	% of revenue	2010	% of revenue
							(unaudited)			
Salaries and benefits	2,612	1.2	2,943	0.9	7,622	1.2	2,762	1.2	8,208	1.4
Depreciation and amortization	1,828	0.9	1,325	0.4	3,470	0.6	1,744	0.8	2,136	0.3
Research and development	1,441	0.7	1,802	0.6	2,630	0.4	1,039	0.5	1,303	0.2
Advertisement and exhibition	2,224	1.0	1,577	0.5	1,793	0.3	274	0.1	2,122	0.4
Professional fees	320	0.2	336	0.1	252	0.0	123	0.1	1,108	0.2
Others(1)	3,390	1.6	2,095	0.6	6,912	1.1	2,233	1.0	4,543	0.8
Expenses of disposed subsidiaries	9,473	4.5	10,420	3.2	-	-	-	-	-	-
Total	21,288	10.1	20,498	6.3	22,679	3.6	8,175	3.7	19,420	3.3

Note:

(1) Others primarily include royalties and license fees.

Finance costs

Finance costs primarily include interest on our bank borrowings and finance charges we incurred in relation to the factorization of our notes receivable.

Income tax expense

Income tax expense primarily consists of provision for PRC current and deferred income tax expenses. Our effective tax rates were 24.0%, 24.2%, 25.1% and 25.0% for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively.

Minority interests

Minority interests consist of minority shareholders' share in our profit after tax and total comprehensive income for the year. The minority shareholders were shareholders of the subsidiaries we disposed of in 2008. After our disposal of those subsidiaries, all of our subsidiaries have been 100% owned by us. As a result, we did not record any minority interests in 2009.

TAXATION

Cayman Islands

Our holding company, Boshiwa International Holding Limited, is incorporated in the Cayman Islands as an exempted company and, accordingly, is exempt from Cayman Islands income tax.

British Virgin Islands

Kingman Holdings is incorporated in the British Virgin Islands as an exempted company and, accordingly, is exempt from British Virgin Islands income tax.

Hong Kong

Pacific Leader is incorporated in Hong Kong, and its applicable corporate income tax rate is 16.5%.

PRC

For the year ended December 31, 2007, as foreign-invested manufacturing oriented companies registered in Shanghai old town, the applicable income tax rate for Shanghai Boshiwa and Shanghai Ronghua was 27%; as a foreign invested manufacturing oriented company located in Shanghai Waigaoqiao Free Trade Zone, the applicable income tax rate for Shanghai Rongli was 15%. The applicable income tax rate for Rongchen Consulting was 33%. Income tax provision for Rongchen Driver Training and Rongchen Knitting was between 0.5% and 3.3% of the revenues from different sales or services for the year/period as adjusted in accordance with the relevant tax laws.

On March 16, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax , or the EIT Law. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the EIT Law. The EIT Law and Implementation Regulations changed the statutory income tax rate to 25% effective from January 1, 2008.

The applicable income tax rate for Shanghai Boshiwa, Shanghai Ronghua, Shanghai Rongli, Boshiwa Enterprise, Rongchen Consulting and Shanghai Desheng was 25% starting from January 1, 2008. Income tax provision for Rongchen Driver Training and Rongchen Knitting was between 0.5% and 3.3% of the revenues from different sales or services for the year/period as adjusted in accordance with the relevant tax laws. The deemed taxation method of tax calculation is generally used by the tax authorities for ease of tax administration purposes. If a taxpayer has obtained approval from a competent tax authority to use deemed taxation method to file its income tax returns, it will be taxed at 25% statutory income tax rate (or 33% for 2007) on a deemed profit instead of actual profit basis. The deemed profit is calculated based on the reported turnover and a deemed profit rate, which is usually determined and approved by tax authority based on the industry which the taxpayer operates in. Driver Training and Rongchen Knitting had received approvals from competent tax authorities, which allows them to report their income tax on a deemed profit basis. Before we disposed of Rongchen Driver Training and Rongchen Knitting in 2008, their applicable statutory income tax rates were 33% and 25% for 2007 and 2008, respectively. As their deemed profits were calculated at 1.52% to 12% of the revenue from different sales or services, the effective income tax liability was between 0.5% and 3.3% of the revenue from their respective sales or services for the year/period. As advised by our PRC legal advisers, Haiwen & Partners, we are not liable for additional tax liabilities, if any, after our disposal of Rongchen Driver Training and Rongchen Knitting in 2008 because we disposed all of our equity interests in those two companies to Independent Third Parties and, according to the share transfer agreements relating to the disposal, we would not be liable for any potential tax liabilities of those two companies.

Our Directors confirm that we have made all required tax filings in all relevant jurisdictions and paid all tax liabilities that have become due. We are not subject to any dispute or potential dispute with any tax authorities.

We make provisions for withholding tax on undistributed profits once our Board has approved a dividend distribution plan. Under CEPA, the withhold tax rate is 5%. We reserve an amount equal to 5% of the total amount of dividends payable as our provision for withholding tax.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Revenue

Revenue increased by RMB374.0 million, or approximately 169.3%, from RMB221.0 million for the six months ended June 30, 2009 to RMB594.9 million for the six months ended June 30, 2010, primarily as a result of an increase in our revenue derived from sales of children's apparel, footwear and accessories and other children's products. This increase was primarily attributable to the increase in sales volume resulting from the significant expansion of our sales network, including the addition of seven flagship stores, 24 Boshiwa 365 stores, 23 street shops and 347 department store concessions, and the increase in our sales per square meter during this period. In addition, we expanded our product offerings in the six months ended June 30, 2010 to include a range of other children's products, which helped to attract additional customers to our retail outlets. These additional customers also purchased our children's apparel, footwear and accessories, which contributed to the increase in our revenue.

Cost of sales

Cost of sales increased by RMB201.0 million, or approximately 153.4%, from RMB131.0 million for the six months ended June 30, 2009 to RMB332.0 million for the six months ended June 30, 2010, primarily as a result of the RMB115.1 million increase in the cost of our apparel, footwear and accessories.

Gross profit and gross profit margin

Gross profit increased by RMB173.0 million, or approximately 192.3%, from RMB89.9 million for the six months ended June 30, 2009 to RMB262.9 million for the six months ended June 30, 2010. Our gross profit margin increased from 40.7% for the six months ended June 30, 2009 to 44.2% for six months ended June 30, 2010, primarily because we changed our sales arrangements with authorized third-party retailers. Prior to 2010, we offered discounts from our retail prices for our sales to authorized third-party retailers, and authorized third-party retailers were responsible for all rental and interior decoration expenses for the retail outlets they operated. In 2010, we introduced new sales arrangements with authorized third-party retailers that operate our street shops, Boshiwa 365 stores and flagship stores whereby we reduce the size of our discounts to them by 5% to 20% and we are responsible for the rental and interior decoration expenses for the retail outlets they operate. We entered into these new sales arrangements with some of the new authorized third-party retailers we engaged in 2010 and with some authorized third-party retailers we engaged prior to 2010 upon the expiration of our previous agreements with them. In addition, our department store concessions participated in many promotional activities organized by department stores in 2009 and offered discounts to retail customers, while in 2010 these promotional activities have decreased given the recovery of the Chinese economy. As a result of the lower discounts we offer throughout our sales channels, our gross profit margin increased for the six months ended June 30, 2010 compared with the same period in 2009. This increase was partially offset as a result of the increase in the percentage of our revenue contributed by sales of our other children's products, which generally have lower gross profit margins than our children's apparel, footwear and accessories. We believe that an extensive product portfolio containing a wide range of other children's products should help to attract customers for our other products, including children's apparel, footwear and accessories, and should help to contribute to the increase in our overall profitability.

Other income

Other income increased by RMB12.8 million, or approximately 189.6%, from RMB6.7 million for the six months ended June 30, 2009 to RMB19.5 million for the six months ended June 30, 2010, primarily because our government grants increased from RMB6.6 million for the six months ended June 30, 2009 to RMB19.4 million for the six months ended June 30, 2010. The amount of our government grants is based on our income tax payments to Yangpu District of Shanghai. Our government grants increased for the six months ended June 30, 2010 primarily because our income tax payments increased along with our profit. In China, the deadline to file and pay corporate income tax for a given year is May 30 of the following year. We made a portion of our 2009 income tax payments in 2010 and as a result received an recorded the government grant related to those payments in the six months ended June 30, 2010.

Distribution and selling expenses

Distribution and selling expenses increased by RMB32.3 million, or approximately 103.9%, from RMB31.1 million for the six months ended June 30, 2009 to RMB63.4 million for the six months ended June 30, 2010, primarily as a result of increases in our concession fees and rental expenses, salaries and benefits and promotional event and advertisement expenses. Our concession fees and rental expenses increased in the six months ended June 30, 2010 primarily as a result of the expansion of our sales network, including the addition of seven flagship stores, 24 Boshiwa 365 stores, 23 street shops and 347 department store concessions. In addition, our rental expenses increased because we started to pay the rental expenses for retail outlets operated by third parties. Our salaries and benefits increased primarily because we had more personnel due to the expansion of our business. Our promotional event and advertisement expenses increased in the six months ended June 30, 2010 because we had more retail outlets and we increased our promotional efforts.

Administrative and general expenses

Administrative and general expenses increased by RMB11.2 million, or approximately 137.6%, from approximately RMB8.2 million for the six months ended June 30, 2009 to approximately RMB19.4 million for the six months ended June 30, 2010, primarily due to increases in our salaries and benefits, research and development expenses, professional fees and other administrative and general expenses, which primarily included royalties and license fees. Our salaries and benefit for administrative personnel increased in the six months ended June 30, 2010 because we added a significant number of administrative personnel as our business expanded. Our research and development expenses increased as we increased our efforts to develop additional products and expand our product offerings. Our royalties and license fees increased because we had more licensed brands in the six months ended June 30, 2010 than in the six months ended June 30, 2009. We added NBA, Barcelona, Juventus, Manchester United, Bob the Builder and Thomas and Friends into our licensed brand portfolio after June 30, 2009.

Finance costs

Finance costs increased by RMB1.8 million, or approximately 65.5%, from RMB2.8 million for the six months ended June 30, 2009 to RMB4.6 million for the six months ended June 30, 2010 primarily as a result of an increase in our short-term borrowings.

Profit before tax

Profit before tax from operations increased by RMB140.3 million, or approximately 257.0%, from RMB54.6 million for the six months ended June 30, 2009 to RMB194.9 million for the six months ended June 30, 2010, as a result of the foregoing.

Income tax expense

Income tax expense increased by RMB35.1 million, or approximately 256.6%, from RMB13.7 million for the six months ended June 30, 2009 to RMB48.8 million for the six months ended June 30, 2010, primarily as a result of the increase in our taxable income. Our effective tax rates were 25.0% for the six months ended June 30, 2009 and 25.0% for the six months ended June 30, 2010.

Profit after tax and total comprehensive income for the period

Profit after tax and total comprehensive income increased by RMB105.3 million, or approximately 257.2%, from RMB40.9 million for the six months ended June 30, 2009 to RMB146.2 million for the six months ended June 30, 2010, as a result of the foregoing.

Net profit margin

Our overall net profit margin increased from 18.5% for the six months ended June 30, 2009 to 24.6% for the six months ended June 30, 2010 as a result of the foregoing.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue

Revenue from continuing operations increased by RMB386.6 million, or approximately 158.7%, from RMB243.6 million for the year ended December 31, 2008 to RMB630.2 million for the year ended December 31, 2009, primarily as a result of an increase in our revenue derived from sales of children's apparel and other children's products. This increase was primarily attributable to the increase in sales volume resulting from the significant expansion of our sales network, including the addition of three flagship stores, seven Boshiwa 365 stores, 12 street shops and 283 department store concessions, and the increase in our average sales per store during this period.

Revenue increased by RMB304.6 million, or approximately 93.5%, from RMB325.6 million for the year ended December 31, 2008 to RMB630.2 million in the year ended December 31, 2009, primarily reflecting the increase in our revenue from continuing operations, which was partially offset by the decrease in our revenue from discontinued operations. We recorded RMB82.0 million in revenue for the year ended December 31, 2008 and none for the year ended December 31, 2009 from our discontinued operations. We disposed of a number of subsidiaries in 2008 that had operated our discontinued manufacturing business and driver training services, and, as a result, did not derive any revenue from them in 2009.

Cost of sales

Cost of sales from continuing operations increased by RMB258.4 million, or approximately 245.0%, from RMB105.5 million for the year ended December 31, 2008 to RMB363.9 million in the year ended December 31, 2009, primarily as a result of the RMB221.7 million increase in the cost of our apparel, footwear and accessories.

Cost of sales increased by RMB179.2 million, or approximately 97.0%, from RMB184.7 million for the year ended December 31, 2008 to RMB363.9 million in the year ended December 31, 2009, primarily reflecting an increase in our cost from continuing operations, as partially offset by the elimination of costs relating to our discontinued operations. Our cost of sales relating to discontinued operations was RMB79.2 million for the year ended December 31, 2008. We disposed of a number of subsidiaries in 2008 and, as a result, did not incur costs relating to them in 2009.

Gross profit and gross profit margin

Gross profit from continuing operations increased by RMB128.2 million, or approximately 92.9%, from RMB138.1 million for the year ended December 31, 2008 to RMB266.3 million for the year ended December 31, 2009. Our gross profit margin for continuing operations decreased from 56.7% for the year ended December 31, 2008 to 42.3% for the year ended December 2009, primarily because our gross profit margins for children's apparel, footwear and accessories and other children's products decreased in 2009 compared with 2008. In 2009, we generated a higher percentage of our revenue from sales to authorized third-party retailers compared with 2008, which reduced our gross profit margins. We increased our promotional efforts in 2009 and offered more discounts to our customers, which also reduced our profit margins as our sales to authorized third-party retailers are at a discount from our retail sales. In addition, other children's products represented a higher percentage and children's apparel, footwear and accessories represented a lower percentage in our product mix in 2009 compared with 2008, which reduced our overall gross profit margin as our gross profit margin for other children's products is lower than that for children's apparel, footwear and accessories.

Gross profit increased by RMB125.4 million, or approximately 88.9%, from RMB141.0 million for the year ended December 31, 2008 to RMB266.3 million in the year ended December 31, 2009. Our gross profit margin decreased from 43.3% for the year ended December 31, 2008 to 42.3% for the year ended December 2009, primarily as a result of the decrease in our gross profit margin for continuing operations.

Other income

Other income decreased by RMB7.1 million, or approximately 50.6%, from RMB14.0 million for the year ended December 31, 2008 to RMB6.9 million in the year ended December 31, 2009, primarily because we recorded RMB12.9 million in 2008 for gain on disposal of subsidiaries but no such income in 2009. This decrease was partially offset by an increase in our government grants in 2009 compared with 2008.

Distribution and selling expenses

Distribution and selling expenses increased by RMB26.0 million, or approximately 56.8%, from RMB45.9 million for the year ended December 31, 2008 to RMB71.9 million in the year ended December 31, 2009. Our distribution and selling expenses for continuing operations increased from approximately RMB45.1 million for the year ended December 31, 2008 to approximately RMB71.9 million for the year ended December 31, 2009, primarily as a result of increases in our concession fees and rental expenses and promotional event and advertisement expenses. Our concession fees and rental expenses increased in 2009 primarily as a result of the expansion of our sales network, including the addition of three flagship stores, seven Boshiwa 365 stores, 12 street shops and 283 department store concessions. Our promotional event and advertisement expenses increased in 2009 because we increased our promotional efforts. We recorded RMB0.8 million and none in distribution and selling expenses for our discontinued operations for 2008 and 2009, respectively.

Administrative and general expenses

Administrative and general expenses increased by RMB2.2 million, or approximately 10.6%, from RMB20.5 million for the year ended December 31, 2008 to RMB22.7 million in the year ended December 31, 2009. Administrative and general expenses for our continuing operations increased from approximately RMB10.1 million for the year ended December 31, 2008 to approximately RMB22.7 million for the year ended December 31, 2009, primarily due to the increase in our salaries and benefits, depreciation and amortization, and allowance for doubtful debt. Our salaries and benefit for administrative personnel increased significantly in 2009 as a result of the significant expansion of our business and the general increase in salaries in China. Our depreciation and amortization expenses increased significantly in 2009 because we purchased an office building for our corporate headquarters in November 2008 and recorded 12 months of depreciation expenses for it in 2009 compared with only two months in 2008. Our allowance for doubtful debt increased in 2009 because our trade receivables increased significantly along with the significant growth of our sales.

Finance costs

Finance costs decreased by RMB1.1 million, or approximately 16.5%, from RMB6.9 million for the year ended December 31, 2008 to RMB5.8 million in the year ended December 31, 2009 despite an increase of approximately RMB76.3 million in our short-term borrowings, primarily as a result of an overall decrease in interest rate and the elimination of our finance charges associated with the factorization of notes receivable. In 2009 we stopped accepting notes as a method of payment from our customers to enhance our liquidity and reduce our finance costs.

Profit before tax

Profit before tax from operations increased by RMB89.5 million, or approximately 107.2%, from RMB83.4 million for the year ended December 31, 2008 to RMB172.9 million in the year ended December 31, 2009, as a result of the foregoing.

Income tax expense

Income tax expense increased by RMB23.3 million, or approximately 115.7%, from RMB20.2 million for the year ended December 31, 2008 to RMB43.5 million in the year ended December 31, 2009, primarily as a result of the increase in our taxable income and a slight increase in our effective tax rate. Our effective tax rates were 24.2% for the year ended December 31, 2008 and 25.1% for the year ended December 31, 2009.

Profit after tax and total comprehensive income for the year

Our profit after tax attributable to our continuing operations increased from RMB57.1 million for the year ended December 31, 2008 to RMB129.4 million for the year ended December 31, 2009. Our profit after tax attributable to our discontinued operations was RMB6.2 million for the year ended December 31, 2008. We did not record any profit attributable to discontinued operations in 2009.

Profit after tax and total comprehensive income for the year increased by RMB66.1 million, or approximately 104.5%, from RMB63.3 million for the year ended December 31, 2008 to RMB129.4 million for the year ended December 31, 2009, as a result of the foregoing.

Net profit margin

Our net profit margin for continuing operations decreased from 23.5% for the year ended December 31, 2008 to 20.5% for the year ended December 31, 2009, primarily as a result of the same reasons that contributed to the decrease in our gross margin during this period.

Our overall net profit margin increased slightly from 19.4% for the year ended December 31, 2008 to 20.5% for the year ended December 31, 2009 as a result of the foregoing.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenue

Revenue from continuing operations increased by RMB150.0 million, or approximately 160.5%, from RMB93.5 million for the year ended December 31, 2007 to RMB243.6 million in the year ended December 31, 2008, primarily as a result of the increase in our sales of children's apparel, footwear and accessories and the addition of other children's products to our product portfolio. The total number of our retail outlets increased, which contributed to the growth of our sales between these periods.

Revenue increased by RMB113.8 million, or approximately 53.7%, from RMB211.8 million for the year ended December 31, 2007 to RMB325.6 million for the year ended December 31, 2008, primarily as a result of the increase in our revenue from continuing operations, which was partially offset by a decrease in our revenue from discontinued operations. Our revenue from discontinued operations decreased from RMB118.3 million for the year ended December 31, 2007 to RMB82.0 million for the year ended December 31, 2008. We disposed of a number of subsidiaries in August, September and October 2008 and, as a result, recorded less revenue from discontinued operations in 2008 compared with 2007.

Cost of sales

Cost of sales for continuing operations increased by RMB61.2 million, or approximately 138.3%, from RMB44.2 million for the year ended December 31, 2007 to RMB105.5 million in the year ended December 31, 2008, primarily as a result of the increase in our costs relating to children's apparel, footwear and accessories and the addition of other children's products.

Cost of sales increased by RMB43.0 million, or approximately 30.3%, from RMB141.7 million for the year ended December 31, 2007 to RMB184.7 million in the year ended December 31, 2008, primarily reflecting an increase in the cost of sales relating to our continuing operations, as partially offset by a decrease in our cost of sales relating to discontinued operations. Our cost of sales for discontinued operations decreased from RMB97.4 million for the year ended December 31, 2007 to RMB79.2 million for the year ended December 31, 2008. We disposed of a number of subsidiaries in August, September and October 2008 and, as a result, incurred less in costs relating to those subsidiaries in 2008 compared with 2007.

Gross profit and gross profit margin

Gross profit from continuing operations increased by RMB88.8 million, or approximately 180.3%, from RMB49.3 million for the year ended December 31, 2007 to RMB138.1 million in the year ended December 31, 2008. Our gross profit margin for continuing operations increased from 52.7% for the year ended December 31, 2007 to 56.7% for the year ended December 31, 2008, primarily as a result of the increase in the gross profit margin for children's apparel, footwear and accessories. We did not have other children's products in 2007. Sales by our self-managed retail outlets represented a higher percentage of our total sales in 2008 compared with 2007, which contributed to the increase in our gross profit margin as our gross profit margin is higher for sales by our self-managed retail outlets compared with sales to authorized third-party retailers.

Gross profit increased by RMB70.9 million, or approximately 101.1%, from RMB70.1 million for the year ended December 31, 2007 to RMB141.0 million in the year ended December 31, 2008. Our gross profit margin increased from 33.1% for the year ended December 31, 2007 to 43.3% for the year ended December 31, 2008.

Other income

Other income increased by RMB12.8 million, or approximately 1,035.6%, from RMB1.2 million for the year ended December 31, 2007 to RMB 14.0 million in the year ended December 31, 2008, primarily as a result of the RMB12.9 million income we recorded in 2008 for disposal of certain subsidiaries and the increase in the government grants we received.

Distribution and selling expenses

Distribution and selling expenses increased by RMB19.6 million, or approximately 74.3%, from RMB26.3 million for the year ended December 31, 2007 to RMB45.9 million in the year ended December 31, 2008. Our distribution and selling expenses for continuing operations increased from approximately RMB25.5 million for the year ended December 31, 2007 to approximately RMB45.1 million for the year ended December 31, 2008, primarily as the result of increases in our concession fees and rental expenses, salaries and benefits and travel and other expenses. These expenses increased as we expanded our sales network, hired additional sales personnel and increased our sales and marketing activities. Our distribution and selling expenses for discontinued operations decreased from RMB0.9 million for the year ended December 31, 2007 to RMB0.8 million for the year ended December 31, 2008 as we disposed a number of subsidiaries in 2008.

Administrative and general expenses

Administrative and general expenses decreased by RMB 0.8 million, or approximately 3.7%, from RMB21.3 million for the year ended December 31, 2007 to RMB20.5 million for the year ended December 31, 2008. Administrative and general expenses for our continuing operations decreased from RMB11.8 million for the year ended December 31, 2007 to RMB10.1 million for the year ended December 31, 2008 primarily because (i) our allowance for doubtful debt decreased in 2008 because we reversed an allowance in the amount of RMB1.2 million after we collected an account receivable from a customer in 2008; and (ii) we had higher exhibition related expenses in 2007 as we promoted our brands to earn market recognition. Administrative and general expenses for our discontinued operations increased from RMB9.5 million for the year ended December 31, 2007 to RMB10.4 million for the year ended December 31, 2008.

Finance costs

Finance costs increased by RMB3.9 million, or approximately 132.2%, from RMB3.0 million for the year ended December 31, 2007 to RMB6.9 million in the year ended December 31, 2008, primarily as a result of the finance charges we incurred in 2008 in relation to the factorization of notes receivable.

Profit before tax

Profit before tax from operations increased by RMB60.0 million, or approximately 256.7%, from RMB23.4 million for the year ended December 31, 2007 to RMB83.4 million in the year ended December 31, 2008, as a result of the foregoing.

Income tax expense

Income tax expense increased by RMB14.5 million, or approximately 259.5%, from RMB5.6 million for the year ended December 31, 2007 to RMB20.2 million in the year ended December 31, 2008, primarily as a result of the increase in our taxable income and the increase in our effective tax rate from 24.0% for 2007 to 24.2% for 2008 following the effectiveness of the new EIT Law in the PRC.

Profit after tax and total comprehensive income for the year

Our profit after tax attributable to our continuing operations increased from RMB7.0 million for the year ended December 31, 2007 to RMB57.1 million for the year ended December 31, 2008. Our profit after tax attributable to our discontinued operations decreased from RMB10.7 million for the year ended December 31, 2007 to RMB6.2 million for the year ended December 31, 2008, primarily because we disposed of a number of subsidiaries in August, September and October 2008 and did not record any profit from them after the disposals.

Profit after tax and total comprehensive income for the year increased by RMB45.5 million, or approximately 255.9%, from RMB17.8 million for the year ended December 31, 2007 to RMB63.3 million in the year ended December 31, 2008, primarily as a result of the foregoing.

Net profit margin

Our net profit margin for continuing operations increased from 7.5% for the year ended December 31, 2007 to 23.5% for the year ended December 31, 2008, primarily as a result of because our expenses increased by a smaller percentage than our revenue during this period.

Our overall net profit margin increased from 8.4% for the year ended December 31, 2007 to 19.4% for the year ended December 31, 2008 as a result of the foregoing.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table sets forth a summary of Shanghai Boshiwa's net cash flow for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB '000	RMB '000	RMB '000	RMB '000 (unaudited)	RMB '000
Net cash (used in) generated from operating activities	(14,213)	(16,759)	2,508	(41,773)	30,644
Net cash (used in) generated from investing activities	(3,782)	(56,972)	(174,873)	19,519	(38,732)
Net cash generated from financing activities	17,978	68,902	211,717	6,099	55,349
(Decrease) increase in cash and cash equivalents	(17)	(4,829)	39,352	(16,155)	47,261
Cash and cash equivalents at beginning of the year/period	27,767	27,750	22,921	22,921	62,273
Cash and cash equivalent at end of the year/ period	**27,750**	**22,921**	**62,273**	**6,766**	**109,534**

Our net cash generated from operating activities was approximately RMB30.6 million for the six months ended June 30, 2010, primarily reflecting our operating cash flows before movements in working capital of approximately RMB204.5 million, as adjusted by a RMB75.9 million increase in our inventories, a RMB67.0 million increase in our trade and other receivables and a RMB14.5 million increase in our trade and other payables.

Our net cash generated from operating activities was approximately RMB2.5 million for the year ended December 31, 2009, primarily reflecting our operating cash flows before movements in working capital of approximately RMB186.9 million, as adjusted by a RMB177.3 million increase in our trade and other receivables, a RMB59.6 million increase in inventories and a RMB81.1 million increase in our trade and other payables.

Our net cash used in operating activities was approximately RMB16.8 million for the year ended December 31, 2008, primarily reflecting our operating cash flows before movements in working capital of approximately RMB84.2 million, as adjusted by a RMB38.5 million increase in our trade and other receivables, a RMB64.9 million increase in inventories and a RMB14.2 million increase in our trade and other payables.

Our net cash used in operating activities was approximately RMB14.2 million for the year ended December 31, 2007, primarily reflecting our operating cash flows before movements in working capital of approximately RMB34.0 million, as adjusted by a RMB21.8 million increase in our trade and other receivables, a RMB22.6 million increase in inventories and a RMB4.1 million increase in our trade and other payables.

Net cash used in investing activities

Our net cash used in investing activities was approximately RMB38.7 million for the six months ended June 30, 2010, primarily reflecting an increase of RMB22.4 million in pledged bank deposits and RMB16.4 million in payments and prepayments for acquisitions of property, plant and equipment. Bank of Communications and Shanghai Bank offered us favorable credit policies under which they would grant us credit lines up to two or three times of our pledged bank deposits. We increased our pledged bank deposits in the six months ended June 30, 2010 to fully take advantage of these credit policies. Our payments and prepayments for acquisitions of property, plant and equipment primarily included furniture, fixture, interior decoration and other fixed assets associated with our new retail outlets.

Our net cash used in investing activities was approximately RMB174.9 million for the year ended December 31, 2009, primarily reflecting RMB134.4 million of payments and prepayments for acquisition of property, plant, equipment and computer software, RMB38.6 million of advance of loan receivable and a RMB15.0 million increase in pledged bank deposits, as partially offset by RMB12.7 million in proceeds from disposal of subsidiaries. Our prepayments for acquisition of property, plant and equipment increased significantly between these two years as a result of our addition of retail outlets, in particular three flagship stores and seven Boshiwa 365 stores. Our loan receivable represents cash advances we provided to certain long-term OEM suppliers for them to purchase equipment for the manufacture of our products.

Our net cash used in investing activities was approximately RMB57.0 million for the year ended December 31, 2008, primarily reflecting RMB51.1 million of payments and prepayments for acquisition of property, plant and equipment and a RMB10.0 million increase in pledged bank deposits, as partially offset by repayment from an associate, proceeds from disposal of subsidiaries and proceeds from disposal of an associate. Our payments and prepayments for acquisition of property, plant and equipment increased between these two years as a result of our addition of retail outlets.

Our net cash used in investing activities was approximately RMB3.8 million for the year ended December 31, 2007, primarily reflecting a RMB7.2 million increase in payments and prepayments for acquisition of property, plant and equipment, which was partially offset by proceeds from disposals of property, plant and equipment. Our payments and prepayments for acquisition of property, plant and equipment primarily included furniture, fixture, interior decoration and other fixed assets associated with our new retail outlets. Our prepayments for acquisition of property, plant and equipment increased between these two years as a result of our addition of retail outlets.

Net cash generated from financing activities

Our net cash generated from financing activities was approximately RMB55.3 million for the six months ended June 30, 2010, primarily reflecting RMB158.5 million in proceeds from borrowings and RMB136.5 million in capital contributions from shareholders, as partially offset by RMB189.7 million in repayment of borrowings and RMB50.0 million in dividends paid to our shareholders.

Our net cash generated from financing activities was approximately RMB211.7 million for the year ended December 31, 2009, primarily due to RMB241.7 million in proceeds from borrowings and RMB109.3 million in proceeds from capital contributions by investors in exchange for our shares, which are partially offset by RMB135.5 million in repayment of borrowings and RMB3.8 million in dividends paid.

Our net cash generated from financing activities was approximately RMB68.9 million for the year ended December 31, 2008, primarily due to RMB158.8 million in proceeds from borrowings and RMB43.7 million from loans from related parties, which are partially offset by RMB64.9 million in repayment of borrowings, RMB53.7 million of repayment of loans from related parties and RMB15.1 million in dividends paid.

Our net cash generated from financing activities was approximately RMB18.0 million for the year ended December 31, 2007, primarily due to RMB49.9 million in proceeds from borrowings, which is partially offset by RMB39.0 million in repayment of borrowings and RMB2.9 million in dividends paid.

As our business grew rapidly from 2007 to 2009 and in the six months ended June 30, 2010, our expenditures relating to opening new retail outlets and procurement increased significantly over this period. We primarily relied on short-term borrowings from domestic banks to fund the increased need for capital. These short-term borrowings have been used to fund our operations. As of December 31, 2007, 2008 and 2009 and June 30, 2010, we were in a net current assets position.

Contingent Liabilities

Under PRC laws and regulations, prior to the introduction of the MOFCOM Notice issued on August 19, 2010, a foreign-invested enterprise or an enterprise established by a foreign-invested enterprise engaged in retail business through either third-party websites or self-operated websites, were required to obtain MOFCOM's approval for the relevant business scope. Shanghai Boshiwa and Boshiwa Enterprise conducted online sales in China through online stores set up on third-party websites before June 28, 2010, but neither Shanghai Boshiwa nor Boshiwa Enterprise had obtained MOFCOM's approval. As such, Shanghai Boshiwa and Boshiwa Enterprise may be subject to penalties, including prohibition from conducting any more of the illegal business activities, forfeiture of illegal gains and a fine up to an amount of RMB0.5 million. The gains would be calculated as net revenue derived from such online sales after deducting cost of the merchandise sold online. These gains would have amounted to RMB0.2 million, RMB2.3 million and RMB3.2 million for the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010. We did not have any online sales in 2007. We have not made any provision for such contingent liabilities as we consider the likelihood of government authorities taking the above actions against us cannot be estimated. See "Risk Factors—Risks Relating to Our Business—Previous irregularities relating to our online sales through third-party websites could result in penalties by relevant government authorities" for a discussion of the risks associated with the contingent liabilities.

CAPITAL EXPENDITURES

Historical Capital Expenditures

For the three years ended December 31, 2009 and the six months ended June 30, 2010, our capital expenditures primarily included expenditures for interior decoration, furniture, fixtures and equipment for our retail outlets, purchase of real estate for our corporate use, purchase of plant and machinery and purchase of motor vehicles for a former subsidiary, Rongchen Driver Training, which we disposed of in October 2008. Our capital expenditures in 2007 related primarily to motor vehicles for Rongchen Driver Training and expenditures on interior decoration, furniture and fixtures for our department store concessions. Our capital expenditures in 2008 related primarily to purchase of buildings for our corporate use, interior decoration, furniture and fixtures for our retail outlets and purchase of motor vehicles for Rongchen Driver Training. For 2009, our capital expenditure related primarily to interior decoration, furniture and fixtures for our retail outlets and motor vehicles for our corporate use. For the six months ended June 30, 2010, our capital expenditure primarily related to interior decoration, furniture and fixtures for our retail outlets.

We have historically funded our capital expenditures with cash generated from our operations, debt and equity financing and short-term bank borrowings. The following table sets forth our capital expenditures for the periods indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
			(RMB'000)	
Interior decoration, furniture and fixtures	1,760	7,463	15,474	66,775
Buildings	638	41,899	-	-
Motor vehicles	4,420	1,734	2,061	-
Others	425	-	33	-
Total	7,243	51,096	17,568	66,775

Planned Capital Expenditures

For the remainder of 2010, our capital expenditures are expected to primarily consist of expenditures related to purchases of fixtures, furniture and equipment for additional retail outlets. See "Future Plans and Use of Proceeds" for further information.

PAYMENTS AND PREPAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As of June 30, 2010, we had RMB42.4 million in payments and prepayments for acquisition of property, plant and equipment. These payments and prepayments were principally for the acquisition of fixtures, furniture and other interior decoration items for new retail outlets we intended to open in 2010 and for renovation of existing retail outlets, as well as for office renovation. The vendors of these assets are all Independent Third Parties. All of the assets are expected to be delivered by the end of 2010. Our business strategy includes further expanding our sales network and opening more retail outlets in the foreseeable future, and these assets will fit into this strategy.

The table below sets forth further details of the payments and prepayments for acquisition of property, plant and equipment:

		Amount as of December 31, 2009		Amount as of June 30, 2010	
		RMB'000		RMB'000	
Locations	Use		Total		Total
New retail outlets	Furniture and fixtures	37,400	74,800	15,980	37,287
	Interior decoration	37,400		21,307	
Renovation of existing retail outlets	Furniture and fixtures	12,800	12,800	3,814	3,814
Offices and others	Interior decoration	5,100	5,100	1,271	1,271
Total:		92,700	92,700	42,372	42,372

The amounts set forth in the table above represent the full purchase amounts relating to the assets purchased. There is no outstanding purchase amount or commitment. We centrally manage the acquisition of furniture and fixtures and other interior decoration items, which allows us to obtain a more favorable price from the suppliers. We pay upfront the full purchase costs of the furniture and fixtures and other interior decoration items if we think it will reduce our overall acquisition costs and benefit.

As of December 31, 2009, the RMB92.7 million prepayments made by us were primarily for the purchase of furniture, fixtures and interior decoration for approximately 421 retail outlets we intend to open in 2010 with a total store area of 52,580 square meters. In the six months ended June 30, 2010, we opened 236 new retail outlets. Of the RMB92.7 million of payments and prepayments as of December 31, 2009, RMB50.3 million was used for furniture, fixtures and interior decoration for the new retail outlets we opened in the six months ended June 30, 2010.

The table below sets forth our cost of furniture, fixtures and interior decoration per square meter for new retail outlets we opened in the six months ended June 30, 2010 and for existing retail outlets that were opened prior to December 31, 2009.

	Interior Decoration	Furniture and fixtures
	(RMB'000/square meter)	
New retail outlets	1.5	1.5
Existing retail outlets	1.7	1.6

There are no material differences between the costs for our new retail outlets and existing retail outlets. The costs are slightly lower for our new retail outlets because we were able to negotiate for volume discounts as our retail network expanded significantly.

Working Capital

Details of Shanghai Boshiwa's assets and current liabilities as of December 31, 2007, 2008 and 2009, June 30, 2010 and July 31, 2010 are as follows:

	As of December 31,			As of June 30,	As of July 31,
	2007	2008	2009	2010	2010
	(RMB'000)				
Current Assets					
Inventories	89,690	89,287	148,786	224,391	228,262
Trade and other receivables	61,867	165,629	298,338	366,161	402,242
Prepaid lease payments—current	131	260	260	260	260
Amount due from a shareholder/associate	3,019	542	1,029	1,272	1,272
Pledged bank deposits	—	10,000	25,000	47,372	51,872
Bank balances and cash	27,750	22,921	62,273	109,534	56,745
	182,457	288,639	535,686	748,990	740,653
Current Liabilities					
Trade and other payables	47,970	33,992	115,104	91,021	121,740
Tax liabilities	2,474	17,812	39,153	47,773	66,230
Dividends payable	10,118	28,034	27,058	277,105	147,794
Short-term borrowings	50,850	114,895	191,200	160,000	295,963
Amount due to a shareholder/related parties	10,000	-	-	3,291	-
	121,412	194,733	372,515	579,190	631,727
Net Current Assets	61,045	93,906	163,171	169,800	108,926

Historically we have financed our operations and expansion with cash raised from our operating and financing activities. In order to finance the expansion of our business, we have increased our short-term borrowings.

Current Ratio and Gearing Ratio

The table below sets forth Shanghai Boshiwa's current ratio and gearing ratio as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
Financial Ratio				
Current ratio[(1)]	1.50	1.48	1.44	1.29
Gearing ratio[(2)]	8.0%	21.6%	13.1%	0.3%

Notes:

(1) Current ratio is calculated based on the current assets divided by current liabilities.

(2) Gearing ratio is calculated based on net debt (total debt, net of cash and cash equivalents and pledged bank deposits), divided by total assets.

Current Ratio

Our total current assets and total current liabilities increased proportionately in 2008 compared with 2007. As a result, our current ratio remained stable at 1.50 as of December 31, 2007 and 1.48 as of December 31, 2008.

Our current ratio decreased to 1.44 as of December 31, 2009 because our current liabilities increased at a higher percentage than our current assets compared with their respective amounts as of December 31, 2008, primarily due to the increase in our short borrowings and trade and other payables. Our current ratio further decreased to 1.29 as of June 30, 2010 primarily as a result of the increase in our dividends payable.

Gearing Ratio

Our gearing ratio increased from 8.0% as of December 31, 2007 to 21.6% as of December 31, 2008 because the increase in our total liabilities outpaced the increase in our total assets. Our gearing ratio decreased from 21.6% as of December 31, 2008 to 13.1% as of December 31, 2009 because the increase in our total assets outpaced the increase in our total liabilities. Our gearing ratio further decreased to 0.3% as of June 30, 2010 primarily as a result of the increase in our cash, cash equivalents and pledged bank deposits and the increase in our total assets.

Cash Flow and Capital Management

We seek to effectively manage our cash flow and capital commitments. We establish an annual budget and capital expenditure plan prior to the beginning of each year. We evaluate our cash flow and plan our capital commitments on a monthly basis. We centrally manage our capital to ensure proper and efficient collection and deployment of our funds. All application and disbursement of funds require the approval of the appropriate managers.

We have improved our ability to generate cash through increasing our sales. We have also focused on strengthening our capital management through various means, including monitoring our accounts receivable, checking account ledgers with authorized third-party retailers periodically, alerting relevant internal personnel regarding overdue accounts receivable and establishing incentive mechanisms for our personnel to collect accounts receivables. In addition, we manage our long-term capital commitment through our capital expenditure and budget plan. Specifically, we evaluate the following when we plan our long-term capital commitments: (i) our current and projected operational and financial performance; (ii) our cash position and ability to obtain further financing; (iii) demand

and pricing for our products and (iv) changes in government policies. We also review our capital requirements and payment schedules on a monthly basis to ensure we have secured sufficient funds.

We intend to finance our capital expenditures using cash generated from our operations, proceeds from the Global Offering, and funds from our bank loans. Although all of our loans are short-term, they are typically revolving credit facilities and can be renewed from time to time. We have never defaulted on our loans and we have maintained good relationships with PRC commercial banks. As a result, we believe we will be able to continue to refinance our short-term loans. As of June 30, 2010, we had available bank facilities of approximately RMB16.1 million.

INVENTORIES

The table below sets forth a summary of our inventories and average inventory turnover days for the periods indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
			(RMB'000)	
Raw materials	7,559	3,842	3,310	3,428
Work-in-progress	24,757	-	-	-
Finished goods and merchandise	57,374	85,445	145,476	220,963
Total	89,690	89,287	148,786	224,391
Average inventory turnover days(1)	202	177	119	102

Note:

(1) Average inventory equals inventory at the beginning of the year plus inventory at the end of the year divided by two. Average inventory turnover days equals average inventory divided by cost of sales and multiplied by 365 days.

Our inventories as of December 31, 2007 included the inventories for the subsidiaries we disposed of in 2008, which we did not have as of December 31, 2008. On the other hand, our inventory of finished goods and merchandise increased significantly as of December 31, 2008 compared with December 31, 2007 because we disposed of our manufacturing business and began to focus on our retail business. As a result, our total inventories decreased slightly from RMB89.7 million as of December 31, 2007 to RMB89.3 million as of December 31, 2008.

Our inventories increased as of December 31, 2009 compared with December 31, 2008 as we expanded our business rapidly in 2009 and added a large number of retail outlets. Our total inventories increased from RMB89.3 million as of December 31, 2008 to RMB148.8 million as of December 31, 2009. The increased portion of our inventories primarily consisted of apparel and the age of such inventories is generally less than one year. We have made adequate provision for inventories based on our accounting policies.

Our inventories increased as of June 30, 2010 compared with December 31, 2009 because our business expanded further and the number of our retail outlets increased.

Our level of inventories is relatively high at the end of each year compared with the rest of the year as the sales of our autumn and winter collections generally have higher selling prices than our spring and summer collections. Our average inventory turnover days decreased from 202 days in 2007 to 177 days in 2008 primarily because we maintained raw materials and had certain work-in-progress for our manufacturing business in 2007, but we disposed of this business in 2008. We opened more retail outlets in 2008 and increased our inventories of children's products, which partially offset the decreasing effect on our average inventory turnover days caused by the disposal of our manufacturing operations in 2008. Our average inventory turnover days decreased to 119 days as of December 31, 2009 primarily because we disposed of our manufacturing operations in 2008. Our average inventory turnover days further decreased to 102 days as of June 30, 2010 primarily because our sales increased along with the expansion of our sales network. In addition, we improved our logistics management and reduced our time for unpacking and putting products on display at our retail outlets.

The table below sets forth our provision for obsolete and slow-moving inventories for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
			(RMB'000)	
Provision for obsolete and slow-moving inventories	206	2,357	62	344

We believe that children's apparel, unlike adult clothes, usually does not go out of fashion easily. Each season, we sold over 70% of the children's apparel we procured for that season. We were usually able to sell the remaining portion through discounted sales or in a different sales region. As our sales regions cover a variety of geographical regions in China with different climates, consumer preferences and levels of consumption, we are usually able to transfer children's apparel that is out of season or not well-received in one geographical market to a different market and sell it there. We keep low amounts of other products in our inventories. Our other products usually do not go out of fashion and have a long selling period. We inspect our inventories at the end of each accounting period, check the quality and appearance of the merchandise in our inventories and file reports to our finance department. At the same time, we analyze the aging of our inventories and make provisions for long-aged inventories. We believe that our risks relating to obsolete and slow-moving inventories are low, and that we have made adequate provision in this regard.

The table below sets forth an aging analysis of our inventories as of the dates indicated.

	As of December 31,						As of June 30,	
	2007	% of total	2008	% of total	2009	% of total	2010	% of total
				(RMB'000)				
0 to 180 days	60,523.0	67.5	59,388.3	66.5	120,126.5	82.7	200,068.6	89.2
181 to 365 days	13,081.3	14.6	25,452.1	28.5	22,003.0	14.8	16,779.2	7.5
1 to 2 years	10,659.1	11.9	3,351.3	3.8	4,925.2	3.3	6,125.4	2.7
2 to 3 years	2,107.5	2.3	925.9	1.0	1,531.1	1.1	1,248.1	0.6
Over 3 years	3,319.2	3.7	169.5	0.2	150.2	0.1	169.7	0.0
	89,690.0	100.0	89,287.0	100.0	148,786.0	100.0	224,391.0	100.0

As of August 31, 2010, approximately RMB127.3 million, or 56.8%, of our inventories as of June 30, 2010 had been sold.

TRADE AND OTHER RECEIVABLES

The table below sets forth a breakdown of our trade and other receivables and our average trade receivables turnover days as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	(RMB'000)			
Trade receivables	51,222	94,927	274,484	311,716
Less: Allowance for doubtful debts	(2,781)	(1,433)	(3,436)	(3,436)
	48,441	93,494	271,048	308,280
Notes receivable	5,785	29,895	-	-
Advance to suppliers	5,870	3,816	19,596	47,482
Other receivables	1,771	38,798	8,068	10,773
Allowance for other receivables	-	(374)	(374)	(374)
Total:	**61,867**	**165,629**	**298,338**	**366,161**
Average trade receivables turnover days(1)	57	80	106	88

Note:

(1) Average trade receivables equal trade receivables less allowance for doubtful debt at the beginning of the year plus trade receivables less allowance for doubtful debt at the end of the year divided by two. Average trade receivables turnover days equal average trade receivables divided by revenue and multiplied by 365 for the years ended December 31, 2007, 2008 and 2009 and by 181 days for the period ended June 30, 2010.

The table below sets forth a breakdown of our trade receivables as of the dates indicated.

	As of December 31,						As of June 30,	
	2007	% of total	2008	% of total	2009	% of total	2010	% of total
	(RMB'000 except percentages)							
Trade receivables from								
Department stores	7,287.6	14.2	29,534.0	31.1	68,621.0	25.0	28,185.4	9.0
Third-party retailers	31,024.6	60.6	62,179.0	65.5	186,649.0	68.0	266,348.1	85.5
Distributors	12,909.8	25.2	3,214.0	3.4	19,214.0	7.0	17,182.5	5.5
Total:	51,222.0	100.0	94,927.0	100.0	274,484.0	100.0	**311,716.0**	**100.0**

Our trade receivables primarily consisted of receivables from department stores relating to sales by our concessions and receivables from authorized third-party retailers that operate our retail outlets. Our trade receivables increased from December 31, 2007 to December 31, 2008, December 31, 2009 and June 30, 2010 primarily as the result of increases in our sales, particularly sales by retail outlets operated by authorized third-party retailers. Our trade receivables from authorized third-party retailers increased from December 31, 2007 to December 31, 2008, December 31, 2009 and June 30, 2010 primarily because of the rapid increase in the number of our authorized third-party retail outlets and our sales derived from these retail outlets. Our authorized third-party retail outlets increased from 126 as of December 31, 2007, 250 as of December 31, 2008, 478 as of December 31, 2009 and 594 as of June 30, 2010. For our department store concessions, we account for sales in each month with department stores at the end of the month. The department stores then arrange for payment within the pre-agreed payment period, which is typically 40 to 60 days. We grant credit periods of up to 180 days to our productive authorized third-party retailers, department stores and distributors, with our typical credit period being between 30 and 90 days. As of June 30, 2010, we granted 180-day credit periods to 19 authorized third-party retailers, or approximately 15% of our total authorized third-party retailers. In determining the length of credit period to grant to a customer, we conduct individualized case-by-case analysis where we consider several factors, including its growth rate and potential, its orders with us, its credit history and whether it genuine needs our support by way of a longer credit period in order to further develop. As of December 31, 2007, 2008 and 2009, and June 30, 2010, our trade receivables as a percentage of our revenue were 22.9%, 28.7%, 43.0% and 51.8%, respectively. We believe that the amount of our overdue trade receivables is reasonable considering the scale of our business. Our authorized third-party retailers continue to open additional retail outlets and need our support before their business is fully operational. We grant credit periods of up to 180 days to authorized third-party retailers to allow them to devote funds to the expansion of their retail outlets and the growth of their business. We have negotiated detailed payment plans with them and made sufficient provision for such account receivables. Our notes receivable increased significantly in 2008 compared with 2007 primarily because our sales increased significantly and some authorized third-party retailers used notes to pay us. Our notes receivable decreased to zero in 2009 and 2010 because we changed our credit policy and stopped accepting notes as a method of payment. Instead, we started to grant a credit period to credit-worthy authorized third-party retailers. Advance to suppliers consisted of prepayments we made to our suppliers. We are usually required to advance up to 30% of the total purchase price to our suppliers as prepayments. Our advance to suppliers decreased from RMB5.9 million in 2007 to RMB3.8 million in 2008 primarily because we disposed of our manufacturing business in 2008. In 2007, we primarily purchased raw materials for our apparel manufacturing business, and suppliers for such raw materials often required prepayment of the full purchase amount. After we disposed of our manufacturing business in 2008, our suppliers primarily included OEMs and ODMs for apparel and accessories and they required less prepayment. Our advance to suppliers increased to RMB19.6 million in 2009 primarily because our sales and cost of sales increased significantly in 2009 compared with 2008. In addition, due to increases in the prices of raw materials for our suppliers at the beginning of 2009, our suppliers increased the amount of prepayments they generally required from us. Our advance to suppliers increased to RMB47.5 million as of June 30, 2010 because we expect our sales to increase significantly in 2010 and, as a result, our procurement increased significantly and our advance payments to suppliers for such procurement increased significantly as well in the six months ended June 30, 2010 compared with the same period in 2009.

Our average trade receivables turnover days increased from 57 days as of December 31, 2007 to 80 days as of December 31, 2008 and to 106 days as of December 31, 2009 and decreased to 88 days as of June 30, 2010. In 2007, our trade receivable turnover days were relatively short because we had our OEM export business and we were generally paid upon shipment of our products. Our trade receivable turnover days increased in 2008 as we expanded our retail business. In 2009, our sales to authorized third-party retailers increased significantly. We typically grant a credit period of up to 180 days to select authorized third-party retailers, which caused our trade receivable turnover days to further increase. Our trade receivables are higher at the end of the year than in the middle of the year because authorized third-party retailers increase their orders in the end of each year in preparation for the Chinese New Year's holidays in the beginning of the next year. As a result of this seasonal factor and our increased efforts to collect trade receivables, our average trade receivables turnover days decreased to 88 days as of June 30, 2010.

The table below sets forth an aging analysis of trade receivables and notes receivables net of allowance for doubtful debts as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
			(RMB'000)	
0 to 30 days	25,635	84,807	100,649	96,795
31 to 90 days	25,856	12,571	98,837	134,535
91 to 180 days	1,046	20,031	55,777	59,271
Over 180 days	1,689	5,980	15,785	17,679
Total	54,226	123,389	271,048	308,280

The table below sets forth an ageing analysis of trade receivables that are past due but not impaired:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Age				
90 to 180 days	848	450	4	3,185
Over 180 days	1,689	5,980	15,785	17,679
	2,537	6,430	15,789	20,864

The table below sets forth the movement in our allowance for doubtful debts for the periods indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
		(RMB'000)		
Balance at beginning of the year	1,030	2,781	1,807	3,810
(Increase) decrease in allowance recognized in consolidated statement of comprehensive income	1,751	16	2,003	-
Less: Eliminated on disposal of subsidiaries	-	(990)	-	-
Balance at end of year	2,781	1,807	3,810	3,810

In determining the recoverability of the trade receivables, we assess any change in credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

Our trade receivables that were past due but not impaired increased from RMB2.5 million as of December 31, 2007 to RMB6.4 million as of December 31, 2008, RMB15.8 million as of December 31, 2009 and RMB20.9 million as of June 30, 2010, primarily due to significant increases in our sales. All of our account receivables that were past due but not impaired as of December 31, 2009 had been collected as of June 30, 2010.

We grant credit periods to customers after careful review of their credit histories with us and their background. We discuss repayment plans each month with our customers that have overdue receivables with us. The repayment plans do not provide for repayment by installments. These repayment plans contain a commitment from our customers to repay all outstanding amounts by one date. In practice, customers under repayment plans pay us portions of the outstanding amount when they have available cash and often repay the full amount before the deadline in the repayment plan. We believe that our credit control measures are effective. We determine the amount of provision for trade receivables based on our past experience, historical results and reasonable estimate of the likelihood of collection based on our review of customers' background and payment history. Our Directors believe that we made adequate provision for our trade receivables during the Track Record Period. We conduct individualized analysis of our receivables from each authorized third-party retailer and determine the amount of provision to be made on that basis. We have not had any bad debt in the past. We were able to collect some trade receivables for which we had made provision and reversed such provision during the Track Record Period.

As of August 31, 2010, we had received RMB262.1 million, or approximately 85.0%, of our trade receivables outstanding as of June 30, 2010. As of August 31, 2010, we have received all of our trade receivables that are past due but not impaired as of June 30, 2010.

LOAN RECEIVABLES

	As of December 31,			As of June 30,
	2007	2008	2009	2010
			(RMB'000)	
Loan receivables	-	-	38,610	-

Our loan receivables were unsecured loans we made in 2009 to certain long-time suppliers with whom we intend to continue our relationships. All of these long-term suppliers were our OEMs or ODMs and Independent Third Parties. We made the loans to these suppliers so that they would have enough capital to make prepayments for raw materials and secure favorable purchase prices. These loans had a fixed interest rate of 5.4% per year with maturity periods not exceeding three years. All of our loan receivables had been settled in full as of June 30, 2010. We do not intend to make such loans to suppliers in the future. Our PRC legal advisers, Haiwen & Partners, have advised us that our lending such loans to our suppliers was not in compliance with applicable PRC laws and regulations. According to the Measures on Banning Illegal Financial Institutions and Illegal Financial Business (《非法金融機構和非法金融業務活動取締辦法》) issued by the State Council of the PRC on July 13, 1998, the General Rules of Lending (《貸款通則》) issued by the People's Bank of China, or the PBOC, on June 28, 1996, a reply issued by the PBOC on March 16, 1998 and a judicial interpretation issued by the Supreme People's Court on September 23, 1996, non-financial institutions are not allowed to extend loans to each other and any loan agreements entered into between them may be declared invalid by PRC courts. If the PBOC should determine that loan arrangements between non-financial institutions are not in compliance with relevant regulations, the non-financial institutions that extend loans may be subject to penalties imposed by the PBOC, including forfeiture of any interest collected, a fine of up to five times of such interest amount; or if no interest is collected, a fine ranging from RMB100,000 to RMB500,000, but their right to repayment of the principal of the loans shall not be affected. Even though our loan arrangements with our suppliers provided for an annual interest rate of 5.4%, we did not actually charge any interest. As a result, our PRC legal advisers have advised us that, for the loans we extended, we may be subject to a penalty in the maximum amount of RMB500,000.

TRADE AND OTHER PAYABLES

The table below sets forth a breakdown of our trade payables, the total of our other payables and average trade payable turnover days as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
			RMB'000	
Trade payables	23,880	21,858	77,303	38,031
Value-added tax payables	2,975	4,405	25,868	23,001
Payroll payables	2,918	2,967	4,379	5,953
Other payables(1)	18,197	4,762	7,554	24,036
Total:	47,970	33,992	115,104	91,021
Average trade payables turnover days(2)	50	45	50	31

Notes:

(1) Other payables primarily consist of deposits we received from authorized third-party retailers when they placed orders with us and accruals of property management fees. Our other payables as of December 31, 2007 included the other payables of the subsidiaries we disposed of in 2008, such as payables relating to purchases of equipment used in our manufacturing business. Our other payables increased from RMB7.6 million as of December 31, 2009 to RMB24.0 million as of June 30, 2010 primarily because we accrued more professional fees relating to the Global Offering during the six months ended June 30, 2010.

(2) Average trade payables equal trade payables at the beginning of the year plus trade payables at the end of the year divided by two. Average trade payables turnover days equal average trade payables divided by the cost of sales and multiplied by 365 days for the years ended December 31, 2007, 2008 and 2009 and by 181 days for the six months ended June 30, 2010.

Our trade payables are derived primarily from payables relating to the purchase of raw materials and finished products. Our suppliers typically grant us credit periods up to 90 days.

Our trade payables decreased from RMB23.9 million in 2007 to RMB21.9 million in 2008 primarily because we paid OEM suppliers more quickly in 2008 in order to provide them with sufficient funds to secure reasonable prices for raw materials they use in their production. Our trade payables increased to RMB77.3 million as of December 31, 2009, primarily due to the significant growth in our sales. Our trade payables decreased to RMB38.0 million as of June 30, 2010 primarily because we used our loan receivables from suppliers, which totaled RMB38.6 million as of December 31, 2009, to offset against our trade payables to suppliers.

Our average trade payable turnover days decreased from 50 days in 2007 to 45 days in 2008 primarily because, as we disposed of our manufacturing operations in 2008, we substantially reduced the purchase of raw materials, for which the payment period was generally longer than the payment period for finished goods. Our average trade payable turnover days increased to 50 days in 2009 as our purchases of finished goods increased significantly along with the significant growth of our sales. Our average trade payable turnover days decreased to 31 days for the six months ended June 30, 2010 because our trade payables as of June 30, 2010 decreased due to our use of loan receivables to offset trade payables. We had outstanding loan receivables of RMB38.6 million as of December 31, 2009. See "—Loan Receivables" above. As advised by our PRC legal advisers, Haiwen & Partners, our lending such loans to our suppliers was not in compliance with applicable PRC laws and regulations. As a result, we and our suppliers to whom we made such loans discussed settlement of such loans and mutually agreed to use the outstanding amount of loan receivables to offset against our trade payables to them. As of June 30, 2010, all of our loan receivables outstanding as of December 31, 2009 had been settled.

As of August 31, 2010, we had paid all of our trade payables outstanding as of June 30, 2010.

Working Capital of Our Group

Details of our Group's current assets and current liabilities as of December 31, 2007, 2008 and 2009, June 30, 2010 and July 31, 2010 are as follows:

	As of December 31,			As of June 30,	As of July 31,
	2007	2008	2009	2010	2010
			(RMB'000)		
Current Assets					
Inventories	89,690	89,287	148,786	224,391	228,262
Trade and other receivables	61,867	165,629	298,338	366,844	402,242
Prepaid lease payments—current	131	260	260	260	260
Amount due from a shareholder/associate	3,019	542	1,029	1,272	1,272
Pledged bank deposits	—	10,000	25,000	47,372	51,872
Bank balances and cash	27,750	22,921	65,762	109,955	56,745
	182,457	288,639	539,175	750,094	740,653
Current Liabilities					
Trade and other payables	47,970	33,992	115,706	109,465	121,740
Tax liabilities	2,474	17,812	39,153	60,904	66,230
Dividends payable	10,118	28,034	27,058	236,794	147,794
Short-term borrowings	50,850	114,895	263,800	255,963	295,963
Amount due to a shareholder/related parties	10,000	-	680	-	-
	121,412	194,733	446,397	663,126	631,727
Net Current Assets	61,045	93,906	92,778	86,968	108,926

Historically we have financed our operations and expansion with cash raised from our operating and financing activities. In order to finance the expansion of our business, we have increased our short-term borrowings.

The Directors are of the opinion that, taking into account the financial resources available to us including internally generated funds, the available bank credit lines and the estimated net proceeds from the Global Offering, the working capital available to us is sufficient for our present requirements and for at least the next 12 months from the date of this prospectus.

Current Ratio and Gearing Ratio of Our Group

The table below sets forth the current ratio and gearing ratio of our Group as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
Financial Ratio				
Current ratio(1)	1.50	1.48	1.21	1.13
Gearing ratio(2)	8.0%	21.6%	21.7%	10.0%

Notes:

(1) Current ratio is calculated based on the current assets divided by current liabilities.

(2) Gearing ratio is calculated based on net debt (total debt, net of cash and cash equivalents and pledged bank deposits), divided by total assets.

Current Ratio

Our Group's total current assets and total current liabilities increased proportionately in 2008 compared with 2007. As a result, our Group's current ratio remained stable at 1.50 as of December 31, 2007 and 1.48 as of December 31, 2008.

Our Group's current ratio decreased to 1.21 as of December 31, 2009 because our Group's current liabilities increased at a higher percentage than our Group's current assets compared with their respective amounts as of December 31, 2008, primarily due to the increase in our short borrowings and trade and other payables. Our Group's current ratio further decreased to 1.13 as of June 30, 2010 primarily as a result of the increase in our dividends payable.

Gearing Ratio

Our Group's gearing ratio increased from 8.0% as of December 31, 2007 to 21.6% as of December 31, 2008 because the increase in our Group's total liabilities outpaced the increase in our Group's total assets. Our Group's gearing ratio increased slightly from 21.6% as of December 31, 2008 to 21.7% as of December 31, 2009 because the increase in our Group's total liabilities slightly outpaced the increase in our Group's total assets. Our Group's gearing ratio decreased from 21.7% as of December 31, 2009 to 10.1% as of June 30, 2010 primarily because the increase in our Group's total assets outpaced the increase in our Group's total liabilities.

Contractual Obligations of Our Group

As of June 30, 2010, our Group had total contractual obligations in the amount of RMB130.1 million. The table below sets forth our contractual obligations for the period indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
			(RMB'000)	
Capital expenditure commitments				
Contracted but not provided for	-	-	-	-
Authorized but not contracted for	-	-	-	-
Sub-total	-	-	-	-
Operating lease commitments				
Payable within one year	851	2,670	8,286	23,516
Payable after one year but within five years	1,345	22	23,066	91,302
Payable after five years	0	0	4,872	15,306
Sub-total	2,196	2,692	36,224	130,124
Total	2,196	2,692	36,224	130,124

Indebtedness of Our Group

We have financed our operations primarily through cash flows from operations, equity financing and short-term loans from banks. We have not had any long-term loans.

At of July 31, 2010, which is the latest practicable date for determining our indebtedness, our Group had total bank borrowings of approximately RMB296.0 million, RMB266.0 million of which was secured. All of the RMB296.0 million bank borrowings were short-term loans due within one year. As of July 31, 2010, our Group had an aggregate amount of RMB100.0 million unutilized bank facilities. Since July 31, 2010, there has not been any material adverse change in our indebtedness and contingent liabilities.

We entered into a maximum loan agreement with Bank of Communications Co., Ltd. in October 2009. Pursuant to this agreement, we may borrow from Bank of Communications loans in the aggregate amount of no more than RMB100.0 million during the period from October 16, 2009 to October 16, 2011. Each loan we borrow pursuant to this loan agreement shall be used to finance our working capital requirements and shall be repaid within twelve months. As of the Latest Practicable Date, we had not utilized this loan.

We entered into a loan agreement with China Merchant Bank Co., Ltd. in July 2010 for a working capital loan of RMB20 million. The term of the loan is twelve months from July 29, 2010. We drew down this loan in August 2010. Except as disclosed above, our Group did not have at the close of business on the Latest Practicable Date any other outstanding mortgage, charge, debenture, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits or any guarantee outstanding.

LOAN FROM BOCOM HOLDINGS

On December 10, 2009, our Company entered into a loan agreement with BOCOM Holdings, which is the holding company of BOCOM Asia. Pursuant to this loan agreement, BOCOM Holdings agreed to provide a loan in an aggregate amount of HK$110 million to the Company at an interest rate of 15% per annum. As of December 31, 2009, the Company had drawn down HK$82.5 million from BOCOM Holdings. Under this loan agreement, the Company is required to repay any outstanding amount on or before (i) the expiration of seven business days from the Listing Date, or (ii) the expiration of 12 months (which can be extended to 18 months by mutual agreement) from December 10, 2009, whichever is earlier.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any outstanding derivative financial instruments, off-balance sheet guarantees or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

INFLATION

Inflation in China has not materially affected our results of operations. According to the PRC National Bureau of Statistics, the change in the consumer price index in China was 4.8%, 5.9% and -0.7% in 2007, 2008 and 2009, respectively.

RELATED PARTY TRANSACTIONS

For a description of the related party transactions, see "History and Reorganization—Financial Investments and Corporate Reorganization—(2) Corporate Reorganization (8)", notes 26, 29, 32 and 35 in the Accountants' Report of Shanghai Boshiwa set forth in Appendix IA to this prospectus, note 33 in the Accountants' Report of the Company set forth in Appendix IB to this prospectus and notes 37 in the Accountants' Report of Shanghai Boshiwa set forth in Appendix IC to this prospectus.

With respect to the related party transactions set out in the Accountants' Reports in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or our terms that are not less favorable than terms available from Independent Third Parties which are considered fair and reasonable and in the interests of our Shareholders as a whole.

PROFIT FORECAST

Our Directors believe that, in the absence of unforeseen circumstances and on the base and assumption as set out in "Appendix III—Profit Forecast," our profit after taxation but before extraordinary items for the year ending December 31, 2010 is unlikely to be less than RMB250.0 million. The Directors are currently not aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending December 31, 2010 that would affect the prospective financial information presented. On the basis of the prospective financial information and the weighted average number of Shares expected to be issued and outstanding during the current financial year of 2,000,000,000 Shares (assuming the Over-allotment Option is not exercised), the forecast earning per Share on a weighted average basis for the year ending December 31, 2010 is unlikely to be less than RMB0.125.

On a pro forma fully diluted basis and on the assumption that we had been listed since January 1, 2010 and a total of 2,000,000,000 Shares were issued and outstanding during the entire year (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option, the forecast earnings per Share for the year ending December 31, 2010 is unlikely to be less than RMB0.125 representing a price/earnings multiple of 27.1 times and 34.8 times if the Offer Price is HK$3.88 per Share and HK$4.98 per Share, respectively).

The texts of letters from our reporting accountants, and from the Joint Sponsors in respect of the profit forecast are set out in "Appendix III—Profit Forecast".

DISTRIBUTABLE RESERVES

As of June 30, 2010, we had RMB14.7 million of distributable reserves, which are available for distribution to our equity holders.

DIVIDEND POLICY

We declared dividends of approximately RMB2.8 million and RMB257.0 million on July 15, 2009 and June 30, 2010, respectively. We intend to pay the declared dividends to our Shareholders prior to the Listing. As of July 31, 2010, the amount of our unpaid but declared dividend was approximately RMB148.0 million, of which approximately RMB40.0 million is expected to be paid with bank loan we may borrow under the RMB100.0 million credit line agreement with Bank of Communications Co., Ltd. and the remaining amount with our cashflows generated from operating activities. As of June 30, 2010, we recorded approximately RMB236.8 million in dividends payable under our current liabilities. We expect this amount to be substantially reduced following our intended payment of all declared dividends prior to the Listing.

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as of June 30, 2010 and is of the opinion that the value of our property interests is an aggregate amount of approximately RMB129.7 million. The full text of the letter, summary of valuer and valuation certificates with regard to such property interests are set out in Appendix IV of this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since June 30, 2010 and there is no event since June 30, 2010 which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our net tangible assets following the Global Offering. The following unaudited pro forma adjusted net tangible assets is set out here to illustrate the effect of the Global Offering on our net tangible assets as of June 30, 2010 as shown in the accountants' report, the text of which is set out in Appendix IA to this prospectus, and adjusted as described below. The unaudited pro forma adjusted net tangible assets statement does not form part of the accountants' report.

	Our audited consolidated net tangible assets as of June 30, 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma net tangible assets	Unaudited pro forma net tangible per Share
	(RMB'000)	(RMB'000) (Note 1)	(RMB'000)	(RMB) (Note 2)
Based on an Offer Price of HK$3.88 per Share	311,501	1,594,840	1,906,341	0.95
Based on an Offer Price of HK$4.98 per Share	311,501	2,058,885	2,370,386	1.19

Notes:

(1) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$3.88 and HK$4.98 per Share, after deduction of the underwriting commission, incentive fee and other related expenses payable by us. No account has been taken of the Shares which may fall to be issued upon the exercise of the Over-allotment Option.

(2) The unaudited pro forma net tangible asset per Share is arrived at after the adjustment for the estimated net proceeds from the Global Offering payable to us as described in note (1) and on the basis that a total of 2,000,000,000 Shares were in issue immediately following completion of the Share Offer.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

Foreign Currency Risk

We primarily operate in the PRC and the RMB is the functional currency of most of our principal subsidiaries. Certain of our bank balances, borrowings sales and purchases are denominated in Hong Kong dollars and United States dollars, which are currencies other than the functional currency of our group entities and expose us to foreign currency risk.

The carrying amount of our foreign currency denominated bank balances, borrowings and trade receivables at the end of the period/year are as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
HK$	-	-	2,807	90
US$	3,130	190	704	169
AU$	-	-	-	566
JP¥	51	-	-	186
Liabilities				
HK$	-	-	73,200	102,156

Foreign currency sensitivity analysis

The following table details our sensitivity to a 5% change in RMB against HK dollars and US dollars. The 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their value at the end of each reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the period/year where the relevant foreign currencies strengthen 5% against RMB. For a 5% weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the profit for the period/year.

	At December 31,			At June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
JP¥ impact	2	-	-	8
HK$ impact	-	-	(3,525)	(5,103)
US$ impact	114	7	26	7
AU$ impact	-	-	-	24

We closely monitor the effects of changes in the foreign exchange rates on our currency risk exposures. We currently do not take any measures to hedge currency risk exposures.

Interest Rate Risk

Our fair value interest rate risk relates primarily to our fixed-rate bank borrowings and fixed-rate loan receivables. Our cash flow interest rate risk relates primarily to our variable-rate bank deposits. We currently have not entered into interest rate swaps to hedge against our exposure to changes in fair values of our borrowings. Currently, we do not have a specific policy to manage our interest rate risk, but plan to closely monitor the interest rate risk exposure in the future. In the opinion of our Directors, we did not have significant exposure to cash flow interest rate risk as of December 31, 2007, 2008 and 2009 and June 30, 2010 as a 100-basis point change in the variable rate bank deposits as of those dates would not have had any significant financial impact on us.

Credit Risk

Our maximum exposure to credit risk in the event of counterparties' failure to perform their obligations arises from the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial position at the end of each reporting period.

In order to minimize our credit risk, our Directors have assigned a team responsible for determining our credit limits, credit approvals and establishing other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, we review the recoverability of each trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced.

We have concentration of credit risk in respect of bank balances. Approximately 92%, 98%, 99% and 85% of our bank balances as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively, were deposited at two of the five biggest state-owned banks in the PRC and the credit risk relating to these liquid funds is limited.

We have concentration of credit risk in respect of loan receivables. Approximately 90% of our loan receivables as of December 31, 2009 were provided to five long-term suppliers. Our management reviews the counterparties' financial status periodically and continuously monitors our level of exposure to ensure that follow-up actions and collection actions are taken promptly to lower our exposure.

We have concentration of credit risk as at December 31, 2007 and 2008 as 33% and 55%, respectively, of total trade receivables were due from two customers and four customers, respectively. In order to minimize the credit risk, our Directors review the credit limits and credit approvals periodically and continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts.

Liquidity Risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. We do not have any significant exposure to liquidity risk as we were in a net current asset position as of December 31, 2007, 2008 and 2009 and June 30, 2010.

We have built an appropriate liquidity risk management framework for the management of our short-term funding and liquidity management requirements. We manage liquidity risk by maintaining bank facilities and by continuously monitoring forecasted and actual cash flows.