You should read the following discussion in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with Hong Kong financial reporting standards, or HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States. The following discussion and analysis contains forward-looking statements that involve known and unknown risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly under the section headed "Risk Factors" in this prospectus. Please see the discussion of "Forward-Looking Statements" elsewhere in this prospectus.

OVERVIEW

We are a leading bakery chain operator in the PRC. As of December 31, 2010, we owned and operated one of the largest retail chains selling bakery products in the PRC both in terms of revenue and number of retail outlets, according to Euromonitor. We started producing and selling bakery products in 1993, when we were one of the first foreign-invested bakery companies in the PRC market. As of December 31, 2011, we offered a range of bakery products through an expansive multi-channel retail network, including a total number of 898 retail outlets in 22 cities.

As of December 31, 2011, we operated in prime locations and major cities in the Yangtze River Delta region, including 513, 232 and 153 retail outlets in Shanghai, Jiangsu province and Zhejiang province, respectively. The Yangtze River Delta region, where we concentrate on the business development of our stores, is among the most prosperous, rapidly-growing and westernized regions in China, with demand for baked goods exceeding the national average. We added 113 and 127 retail outlets in 2008 and 2009, respectively. In 2010, in addition to the 20 retail outlets opened at the 2010 Shanghai Expo site, we added 55 retail outlets in provinces where we had operations. We have added 80 additional retail outlets in 2011 as a result of the growing demand in the Yangtze River Delta region.

In addition, we have successfully developed a multi-channel retail network featuring differentiated store types designed to appeal to different consumer segments. Our multichannel retail network primarily consists of good neighbor stores, subway stores and flagship stores, each targeting different customer groups, to provide comprehensive consumer coverage. For example, good neighbor stores are our most important retail format and are primarily located in high density residential areas with a stable customer base of household consumers. We also maintain subway stores and flagship stores, each targeting different customer groups, such as white-collar workers in need of a quick snack or meal. We strategically place our flagship stores in marque locations, with the intention of increasing brand awareness and introducing new products. We believe that the combination of these store types and our strategic store placement result in greater market penetration. We directly operate all of our stores to maintain effective control and promote operational efficiency. We also sell our products through our online store and are planning to pursue cooperation with large supermarket and convenience store chains to further expand and diversify our sales channels.

We offer a diverse and innovative product line of more than 2,200 varieties of breads and cakes, moon cakes, pastries and certain other products, with many new products launched each month from our strong product pipeline. Our increasing product offerings, together with our expanding retail network, have resulted in increased revenue year over year. Our revenue increased from approximately RMB1,000.7 million for the year ended December 31, 2008 to RMB1,050.1 million for the year ended December 31, 2009, and to RMB1,284.5 million for the year ended December 31, 2010, representing a CAGR of 13.3%, among which 47.5%, 53.4% and 52.3% were generated from the redemption of our coupon sales, respectively. Our revenue increased from approximately RMB894.8 million for the nine months ended September 30, 2010 to RMB986.5 million for the nine months ended September 30, 2011, among which approximately 53.2% was generated from the redemption of our coupon sales. Our profit and total comprehensive income for the year decreased from approximately RMB127.1 million for the year ended December 31, 2008 to RMB115.7 million for the year ended December 31, 2009, and to RMB88.3 million for the year ended December 31, 2010. Our profit and total comprehensive income increased from RMB70.1 million for the nine months ended September 30, 2010 to RMB80.0 million for the nine months ended September 30, 2011.

The following table presents our revenues during the Track Record Period, broken down by product and expressed in absolute values and as a percentage of our total revenue:

	For the years ended December 31,						For the nine months ended September 30,			
	2008		2009		2010		2010		2011	
	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million) (unaudited)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues
Bread and cakes	702.9	70.2%	715.4	68.1%	889.3	69.2%	579.2	64.7%	643.6	65.2%
Moon cakes	175.4	17.5%	203.2	19.4%	181.0	14.1%	178.7	20.0%	182.5	18.5%
Pastries	105.7	10.6%	91.3	8.7%	155.4	12.1%	98.6	11.0%	118.5	12.0%
Other[(1)]	16.7	1.7%	40.2	3.8%	58.8	4.6%	38.3	4.3%	41.9	4.3%
Total	1,000.7	100.0%	1,050.1	100.0%	1,284.5	100.0%	894.8	100.0%	986.5	100.0%

Note:

(1) Includes GABA milk, ice cream, chocolate, fruit jam, konjac jelly, pizza and other snacks.

RESTRUCTURING AND BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands in March 2008 as an exempted company with limited liability under the Companies Law of the Cayman Islands. In preparation for the Global Offering, we underwent a restructuring in which the Company, Christine International Holdings (BVI) Co., Ltd. and Deluxe International Holdings Limited became holding companies of Shanghai Christine, which was completed on April 21, 2008. Therefore, our Group resulting from the restructuring is regarded as a continuing entity as if our Company had always been the holding company of our Group throughout the Track Record Period. The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows of the Group for the year ended December 31, 2008 have been prepared as if the current group structure had been in existence throughout the year, or since the respective dates of incorporation or establishment, where this is a shorter period.

For more detailed information on the restructuring, please see the section headed "Our History and Reorganization" in this prospectus.

PRINCIPAL FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe that our financial condition and results of operations have been and will continue to be affected by the following factors:

General Economic Conditions, Bakery Market Growth, and Demographic Factors. Overall general economic conditions and demographic factors are important factors affecting sales volumes for bakery products. According to the National Bureau of Statistics of China, the gross domestic product of the PRC was RMB40.1 trillion in 2010, representing a CAGR of 16.7% since 2006. In addition, the increasing number of urban households and increased disposable income of urban households have driven growth in consumption of food products, including bakery products. From 2006 to 2010, the per capita food consumption expenditure of urban households also increased from RMB3,112 to RMB4,805, representing a CAGR of 11.5%. From 2006 to 2010, total urban population in the PRC increased by 87 million from 583 million, representing a CAGR of 3.5%. Urban population, as a percentage of total population, increased from 44.3% in 2006 to 49.9% in 2010. According to Euromonitor, bakery products sales increased from RMB86,353 million in 2009 to RMB96,967 million in 2010, representing a CAGR of 12.3%. In the same period, the revenue of our Company increased from RMB1,050.1 million to RMB1,284.5 million, representing a growth rate of 22.3%, which is much higher than the industry growth rate.

We believe that the growth of the economy of the PRC has led to a rise in living standards and consumer spending on food. In particular, the Yangtze River Delta region of the PRC, where most of our retail outlets are located, has one of the highest per capita annual disposable incomes of any region in the PRC. Rapid economic development and increased spending power in the Yangtze River Delta region has also allowed us to successfully expand into certain second and third tier cities, such as Kunshan, Taicang and Jiaxing, due to increased demand for quality food experiences. However, if there is any economic slowdown in China, consumer spending on bakery products may be negatively impacted, which could in turn have a material adverse effect on our results of operations.

Expansion and Performance of Our Retail Network. Given that we sell most of our bakery products to retail customers through our retail outlets, the rate at which we open new retail outlets is an important driver of revenue growth. We added 113 and 127 retail outlets in 2008 and 2009, respectively. In 2010, in addition to the 20 retail outlets opened at the 2010 Shanghai Expo site, we added 55 retail outlets in provinces where we had operations. We added 80 additional retail outlets in 2011 to meet the growing demand in the Yangtze River Delta region.

In addition, the location of our retail outlets is also an important factor affecting sales volume and our average daily sales per retail outlet. Our retail network covers one of the most densely populated and affluent regions in the PRC, the Yangtze River Delta, with our primary presence in urban areas, including the major cities like Shanghai, Nanjing and Hangzhou. As of December 31, 2011, we operated 513, 232 and 153 retail outlets in 22 cities in Shanghai, Jiangsu province and Zhejiang province, respectively. We believe consumers in this region welcome western culinary influences and that demand for bakery products in this region correspondingly exceeds other regions in the country.

The following table shows our revenue by region from sales of our products for the periods indicated:

	For the years ended December 31,						For the nine months ended September 30,			
	2008		2009		2010		2010		2011	
	RMB million	% of Total	RMB million	% of Total	RMB million	% of Total	RMB million (unaudited)	% of Total	RMB million	% of Total
Shanghai .	792.3	79.2%	797.6	76.0%	884.8	68.9%	628.6	70.2%	643.3	65.2%
Jiangsu . .	181.9	18.2%	205.5	19.6%	257.3	20.0%	176.8	19.8%	225.5	22.9%
Zhejiang . .	26.5	2.6%	47.0	4.4%	142.4	11.1%	89.4	10.0%	117.7	11.9%
Total	1,000.7	100.0%	1,050.1	100.0%	1,284.5	100.0%	894.8	100.0%	986.5	100.0%

We typically use the following benchmarks to evaluate the performance of our retail outlets, including revenue, average daily revenue, revenue per sq.m. per day and store rental as a percentage of revenue. The table below illustrates how our revenue has grown as the number of stores operated by us has increased:

	For the years ended December 31,			For the nine months ended September 30,	
	2008	2009	2010	2010 (unaudited)	2011
Revenue (RMB millions)	1,000.7	1,050.1	1,284.5	894.8	986.5
Average daily revenue (RMB millions)(1)	2.7	2.9	3.5	3.3	3.6
Revenue per sq.m. per day (RMB)(2)	50.8	47.4	52.4	54.0	54.2
Store rental as a percentage of revenue(3)	8.6%	9.4%	9.8%	10.4%	10.6%

Notes:

(1) Calculated based on the actual number of days in a given period.

(2) Revenue per sq.m. per day represents the sum of the revenue per sq.m. per day of the stores that have been in operation throughout a given period. Revenue per sq.m. per day of each store is derived by dividing the sales generated by such store during that period by (i) the saleable area of such store and (ii) the number of days in the period that such store has operated.

(3) Calculated by dividing the total rental expenses incurred for store operations for a given period by the total revenue for the same period.

Comparable Store Sales. We believe that comparable store sales are an important benchmark of our operations. A newly opened store is typically subject to various short-term start up risks and challenges during the period immediately following its opening. Thus, as we continue to add new retail outlets to our retail network each year, we believe that comparable store sales provide a meaningful period-to-period comparison of store performance because they exclude increases that are due to the opening of new stores. We define "comparable stores" as stores that have been in operation throughout the Track Record Period.

The table below sets forth our comparable store sales for the periods indicated:

	For the years ended December 31,				For the nine months ended September 30,	
	2008	2009	2009	2010	2010 (unaudited)	2011
Number of comparable stores[1]	598	598 (as compared to 2008)	547 (as compared to 2010)	547 (as compared to 2009)	710 (as compared to 2011)	710
Aggregate revenues for comparable stores (in RMB millions)	946.6	962.7	907.4	997.1	805.1	873.0
Percentage increase during period	1.7%		9.9%		8.4%	

Note:

(1) The fluctuation of the number of comparable stores during the Track Record Period was affected by the number of the comparable stores newly opened and the number of comparable stores closed in the given period. For example, the 20 retail stores opened at the 2010 Shanghai Expo site, given their event-driven nature, were not comparable to other existing stores. For more details of changes in the number of our retail stores, please see the section headed "Our Business – Our Retail Network" in this prospectus.

We focus on increasing comparable store sales through a variety of measures, including continuously expanding and updating our product offerings and improving our service quality to generate repeat business and attract new customers and carefully selecting locations of our retail outlets in areas with high pedestrian traffic flow. In addition, we engage in various marketing and promotion activities. Our retail outlets regularly offer promotional discounts or other programs to attract more business to improve the store performance. We believe that these efforts have had a positive impact on our revenues. The positive correlation between the increase in number of stores and the increase in our revenue is a significant factor in the management's decision to substantially expand the retail network by using a portion of the net proceeds of the Global Offering as more fully described in the section headed "Future Plans and Use of Proceeds" in this prospectus.

Raw Materials. Our principal raw materials include the major ingredients we use in the production of our bakery products and packaging materials. Major ingredients include flour, eggs, sugar and oil. Apart from these major ingredients, the other ingredients in our products include butter, meat, fruits, vegetables and chocolate. We generally purchase our ingredients domestically in the PRC. Our principal packaging materials include paper bags, plastic bags and plastic film. Our supplier base is therefore relatively diverse. The total purchases from our top five suppliers in aggregate accounted for approximately 44.6%, 46.5%, 42.6% and 39.0% of our Group's purchases in the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. The cost of raw materials used in production accounted for approximately 36.1%, 36.6%, 37.9% and 35.1% of revenue for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively.

The price of raw materials, including packaging materials, are determined principally by market forces such as commodity price fluctuations and changes in governmental policies, as well as our bargaining power vis-à-vis suppliers. During the Track Record Period, we generally experienced rising raw material costs, consistent with the increase in the production price index in China, except for the period following the global financial crisis in the fourth quarter of 2008 when raw material prices were markedly lower. Nevertheless, we believe we have historically been able to minimize price increases through effective inventory management. In addition, because we centralize the procurement of raw materials to take advantage of economies of scale, we have historically been able to obtain raw materials at more competitive prices and minimize the impact of inflation. We also pass along part of increases in the cost of raw materials to our customers through the introduction and sale of new bakery items, which are generally sold at a price higher than the existing bakery items within its respective category. We expect the market prices of our raw materials will continue to increase in 2011 and, as a result, our cost of materials may increase both in absolute terms and as a percentage of our revenue and may result in a reduction in our profit margins and profitability.

Coupon Sales. A substantial portion of our revenue is generated through sales from the redemption of coupons issued by us with expiration terms ranging from 50 days to two years. Sales from coupon redemptions accounted for approximately 47.5%, 53.4%, 52.3% and 53.2% of our revenues for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. We issue coupons at various discounts for bulk purchases depending on the volume of the coupons our customers purchase. Our customers can redeem the coupons with an equivalent face value at any of our retail outlets, typically for a period of up to two years following the date of issuance with respect to our general coupons. Our moon cake coupons do not have a face value, but indicate the types of moon cakes our customers can redeem, and can generally be redeemed from August to October during the Mid-Autumn Festival. When the coupons are redeemed for exchange of our products, revenue from sales of products are recognized at the actual value that the coupons were sold. With respect to coupons that have expired, we are not obligated to accept and redeem, however, we generally give a three months grace period for customers to redeem the expired coupons. Furthermore, if customers present the coupons for redemption after the fixed term and three months grace period, we may still accept the redemption of such coupons with further extension of grace period up to 12 months on an ad hoc basis when they apply for such extension at our customer service department at a cost of coupon printing. We recognize those expired coupons as other income in light of all our contractual and constructive obligations having been fully discharged. We believe that coupon sales will continue to constitute a substantial portion of our total sales. If we discontinue coupon sales or if PRC law introduces more stringent measures on coupon sales, our results of operations may be adversely affected. For risks related to coupon sales, please see the section headed "Risk Factors – Risk Factors Relating to Our Business – A substantial portion of our revenue is generated from our coupon sales. If the Issuance of coupons is challenged or prohibited, our business, financial condition and results of operations may be adversely affected" in this prospectus.

Ability to Address Consumer Preferences Relative to Our Competitors. Consumer preferences change rapidly in the bakery products business and continued success requires rapid introductions of new products as well as modifications or spin-offs from existing ones to meet these changing preferences. We face intense competition from large and diverse groups of bakery chains and individual bakery, and food manufacturers who are engaged in the production of products similar to ours. We compete with our competitors for market share on the basis of prices, product variety, quality and safety, location, environment, customer service, brand image, ability to appeal to changing consumer tastes and preferences and other factors. In order to meet changing consumer demands, we strive to continue to improve our ability to develop, introduce and market new products and expand market share of existing products.

Seasonality. Our sales volume is subject to seasonality, reflecting increased consumption of bakery products during holiday periods. For example, we typically experience our highest sales during the first quarter because of the sale of cakes during the Chinese New Year and the third quarter because of the sale of moon cakes during the traditional Chinese mid-autumn festival. Our operating results may also fluctuate significantly during the course of a financial year for a number of other reasons, including the timing of launching new products and advertising and promotional campaigns, which may, in extreme cases, result in losses in certain period in a financial year.

Product Mix. We offer a variety of innovative product offerings which allow us to meet different consumer tastes and differentiate our products from those of our competitors. As of September 30, 2011, we offered around 1,333 varieties of bread and cake, around 29 varieties of moon cakes and around 194 varieties of pastries, as well as a range of other products. We believe a diversified product portfolio is important to capitalize on changing market trends and consumer preferences in the PRC. Our three major categories of bakery products are bread and cakes, moon cakes and pastries. Our revenues are influenced by the extent to which they are comprised of higher margin products. Our cake and moon cakes products tend to have higher gross profit margins than our bread and pastry products. With a goal of increasing the average unit price of our products, we have actively been planning to expand the production of higher value-added products, particularly our lines of healthier and more nutritious products, by utilizing new ingredients and technologies to appeal to the increasing number of health conscious consumers in the PRC. We sell new bakery items within a particular product category at prices generally higher than those of most of the existing bakery items within the respective category.

The following table shows our revenue in RMB amounts and expressed as a percentage of revenue for each of our major product categories for the periods indicated:

	For the years ended December 31,						For the nine months ended September 30,			
	2008		2009		2010		2010		2011	
	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues	Revenues (RMB million) (unaudited)	% of Total Revenues	Revenues (RMB million)	% of Total Revenues
Bread and cakes . .	702.9	70.2%	715.4	68.1%	889.3	69.2%	579.2	64.7%	643.6	65.2%
Moon cakes . .	175.4	17.5%	203.2	19.4%	181.0	14.1%	178.7	20.0%	182.5	18.5%
Pastries . .	105.7	10.6%	91.3	8.7%	155.4	12.1%	98.6	11.0%	118.5	12.0%
Other(1) . .	16.7	1.7%	40.2	3.8%	58.8	4.6%	38.3	4.3%	41.9	4.3%
Total	1,000.7	100.0%	1,050.1	100.0%	1,284.5	100.0%	894.8	100.0%	986.5	100.0%

Note:

(1) Includes GABA milk, ice cream, chocolate, fruit jam, konjac jelly, pizza and other snacks.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our audited consolidated financial statements as set out in the Accountants' Report in Appendix I to this prospectus. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set out in detail in Note 3 to our audited consolidated financial statements in Appendix I to this prospectus. We prepare our Financial Information in conformity with HKFRS, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the Financial Information and the reported amounts of revenue and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our Financial Information as their application places the most significant demands on our management's judgment.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by our Group, liabilities incurred by our Group to the former owners of the acquiree and the equity interests issued by our Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Revenue Recognition

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

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

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to our Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate 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.

Property, Plant and Equipment

Property, plant and equipment including land and buildings held for use in the supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable differences arising on investments in subsidiaries and associates except where our Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which our Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

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

PRINCIPAL OF STATEMENT OF COMPREHENSIVE INCOME ITEMS

Revenue
We generate revenue from the sale of our bakery products. Our revenue is determined by our sales volume and the prices at which we sell our products. Our sales volume depends on a number of factors, including general economic conditions and demographic factors, the number and location of our retail outlets, our ability to address consumer preferences relative to our competitors, the strength of our brand, the seasonality of our sales and the mix of our products. We set or revise the prices of our products based on their expected impact on demand and on operating margins, prices of our competitors, procurement costs for raw materials, inflation, development and production costs and sales and marketing expenses. We generally consider the pricing levels for our products to be stable. In March and April 2011, we increased the selling prices of 24 varieties of bread, 14 varieties of cakes and 31 varieties of pastries, which contributed to approximately 25.3% of our revenue recorded in April 2011, to reflect the increasing cost of sales, representing an price adjustment ranging from approximately 4% to 32% for our existing products. Given the increasing fluctuation in the raw material prices, we expect to review the prices of our products periodically in the future to properly reflect our costs.

The following table shows the price ranges of our major products by category for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2008	2009	2010	2010	2011
Product Category	Unit Price Range (RMB)				
Bread and Cakes					
Bread	3-13.8	3.5-13.8	3.5-23.9	3-25	3-32
Cakes	4-4,507	4-3,708	4-5,247	4-5,274	4-5,274
Moon Cakes	13-588	13-688	13-688	15-688	15-888
Pastries	2-78	2-62	2-68	2-268	2-328
Others	6.8-8.8	6.8-8.8	5.8-8.8	4-298	4-140

Note:

(1) The prices set forth in the table above are inclusive of value-added tax.

Cost of Sales

Our cost of sales primarily consists of costs associated with the production of our products, including costs of raw materials, manufacturing costs and direct labor costs. Cost of sales as a percentage of revenue has remained relatively stable at approximately 43.6%, 46.1%, 49.5% and 47.6% for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively.

The following table sets forth a breakdown of our cost of sales by component for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2008	2009	2010	2010 (unaudited)	2011
	(in thousands of RMB)				
Material[1]	360,996	384,431	486,775	312,741	346,649
Direct Labor	22,979	24,741	39,564	25,928	29,547
Manufacture Expenses[2]	52,751	74,479	109,843	81,963	93,007
	436,726	483,651	636,182	420,632	469,203

Notes:

(1) Our material costs in 2010 primarily consisted of flour, sugar, butter and other ingredients used in the production of our bakery products. The significant increase in 2010 as compared to 2009 primarily reflected the increased sale volume of our bakery products, as well as the overall increase in raw material prices.

(2) Our manufacture expenses in 2010 primarily consisted of salary and employee benefit for staff in the manufacturing department responsible for managing and supporting manufacturing personnel, depreciation, utility expenses and packaging material expenses. The significant increase in our manufacture expenses primarily reflected the increased salary and employee benefits as a result of our increased number of employees, the increased depreciation expenses as a result of the commission of our Jiang Ning central bakery, the increased utility expenses as we continued to expand our operations and the increased packaging material expenses for packaging material used in the 2010 Shanghai Expo.

The following table shows a breakdown of our cost of sales by product category for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2008 Cost of Sales	2009 Cost of Sales	2010 Cost of Sales	2010 Cost of Sales (unaudited)	2011 Cost of Sales
	(in thousands of RMB)				
Bread and cakes	307,357	359,990	494,786	320,125	366,002
Moon cakes	54,787	52,685	48,491	48,320	43,874
Pastries	60,174	50,097	68,601	38,042	45,436
Others[1]	14,408	20,879	24,304	14,145	13,891
Total	436,726	483,651	636,182	420,632	469,203

Note:

(1) Includes GABA milk, ice cream, chocolate, fruit jam, konjac jelly, pizza and other snacks.

Margin Analysis

Our gross profit represents our revenue less cost of sales. Gross profit margin equals to gross profit as a percentage of revenue. Operating profit represents our revenue less all operating expenses before finance costs and taxation. Operating profit margin equals to operating profit as a percentage of revenue. Net profit represents our revenue less cost of sales and all other expenses and taxation. Net profit margin is equal to net profit as a percentage of revenue. The table below sets forth our gross profit margin, operating profit margin and net profit margin for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2008	2009	2010	2010	2011
Gross profit margin	56.4%	53.9%	50.5%	53.0%	52.4%
Operating profit margin . . .	19.3%	14.8%	9.1%	10.6%	10.9%
Net profit margin	12.7%	11.0%	6.9%	7.8%	8.1%

The table below sets forth our gross profit margins by product categories for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2008	2009	2010	2010	2011
Bread and cakes.	56.3%	49.7%	44.4%	44.7%	43.1%
Moon cakes	68.8%	74.1%	73.2%	73.0%	76.0%
Pastries	43.1%	45.2%	55.9%	61.4%	61.7%
Others	13.5%	48.1%	58.6%	63.0%	66.8%

The gross margins for the bread and cakes category decreased from 2008 to 2010, primarily due to an increase in costs of overall raw materials, including flour, oil, sugar, and egg, as a result of price increases in these raw materials and an increase in labor costs due to increased social insurance compensation for our manufacturing staff. Our gross margins for the bread and cakes category remained largely stable in the nine months ended September 30, 2010 and 2011. The relatively higher gross margins for the moon cakes category in 2009 and 2010 as compared to 2008 was primarily attributable to an increase in sales prices due to increased market demand. The gross margins for the pastries category and the other food product category both experienced significant growth during the Track Record Period, mainly as a result of cost savings through the improvement of utilization rate of the production lines for producing pastries and other food products. Our Ji Yuan De central bakery, which primarily focuses on the production of pastry products, and our Jiang Ning central bakery, which is the primary bakery for our production of other food products (e.g., GABA milk and konjac jelly products), recorded an increase in overall utilization rate from approximately 88% and 33% in 2008, respectively, to approximately 92% and 47% in 2010, respectively. Such increase was primarily due to the increase in the output of these two central bakeries as a result of the Company's increased sales of bakery and other products.

Starting from 2011, we have adopted the following measures with an aim to improving our overall profitability: (i) increase the frequency of our promotions and improve our promotion of new products at our retail outlets; (ii) motivate our store managers to enhance their performance by adopting a performance-based incentive plan; (iii) increase the sales prices of some of our products since the first quarter of 2011 to offset the impact of the increasing costs; and (iv) conduct effective cost control measures, including maintaining long-term business relationship with our suppliers to secure a higher discount rate and enhance our productivity per employee as a result of our enhanced production efficiency with the commencement of our automated production facilities.

Other Income and Gains and Losses

Other income and gains and losses primarily consist of interest income, government grants, gain on expired unredeemed coupons, exchange gain, fair value adjustment for trading financial assets and certain other income. The following table provides a breakdown of other income and gains and losses by major items for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2008	2009	2010	2010 (unaudited)	2011
	(in thousands of RMB)				
Interest income	6,475	6,467	6,624	5,420	10,040
Government grants	–	812	8,138	7,774	7,399
Release of asset-related government grants	–	–	–	–	286
Gain on expired unpresented coupons	6,427	5,337	6,972	311	8,686
Loss on disposal of property, plant and equipment	(208)	(317)	(590)	(626)	(327)
Exchange gains (losses)	3,575	(196)	(195)	360	1,533
Change in fair value of financial derivatives	–	185	(266)	(266)	(815)
Fair value adjustment for held-for-trading financial assets	(2,825)	–	–	–	–
Gain on disposal of scrap and other materials	823	2,044	1,588	640	2,516
Others	2,123	1,006	886	94	956
	16,390	15,338	23,157	13,707	30,274

We received interest income from demand deposit or purchase certain financial assets as short-term investments, which primarily refer to the structure deposits linked to government bonds and treasury bills issued by the PRC government and arranged by certain local banks in the PRC where we operate. These deposits have pre-determined terms of less than one year and normally have a fixed interest rate ranging from 2.0% to 3.5%.

In 2010, we received a total of RMB8.1 million government grants, which included an RMB7.2 million government subsidy from the local government of Huaxing Town where our Long Wu central bakery is located. Such subsidy was granted to us by the local government to support local business development, and was not subject to any obligation or condition on our behalf. In addition, such subsidy is non-recurring and is at the sole discretion of the local government, and we may not receive similar subsidy in the future.

We record coupons sold to customers as deposit from customers. When the coupons expired, we are not obligated to accept and redeem these coupons. However, we generally give grace period for customers to redeem the expired coupons on an ad hoc basis. We recognize those expired coupons as other income in light of all our contractual and constructive obligations having been fully discharged. For more details, please see the section headed "Financial Information – Deposit from Customers" in this prospectus.

We recorded a fair value adjustment for held-for-trading financial assets in 2008. The held-for-trading securities were listed on the Shanghai Stock Exchange, and were subscribed by us upon their initial public offerings and subsequently sold at their then quoted market prices for RMB1.5 million in 2008. We did not have any similar investments in 2009, 2010 and the nine months ended September 30, 2011, and do not expect to have any similar investments after the Listing.

In 2008, we had significant payables denominated in Euro due to purchase of imported equipment. In addition, we also borrowed US$8.7 million to pay a dividend to our shareholders, accompanied with a foreign exchange forward contract to purchase U.S. dollars at a pre-determined rate in order to minimize the risk from the future fluctuation of foreign exchange rate. Due to the appreciation of the Renminbi against these foreign currencies, we recognized exchange gains of RMB3.3 million in 2008.

Other Expenses

Other expenses primarily consist of donations and miscellaneous expenses and listing expenses. The donations reflected our sponsorship for events, such as the 2010 Shanghai Expo.

Distribution and Selling Expenses

Our distribution and selling expenses are the costs associated with the sale and distribution of our products, including the rent, utilities and employee salaries of our retail outlets, advertising costs, low-value consumables and transportation costs. We also recorded certain one-off promotion expenses in 2010 for promotion of our products at the 2010 Shanghai Expo site. For the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, we recorded monthly rental expenses for our leased retail outlets in the amount of RMB7.1 million, RMB8.2 million, RMB10.4 million and RMB11.6 million, respectively. The following table shows a breakdown of some of the major items of the distribution expenses for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2008	**2009**	**2010**	**2010 (unaudited)**	**2011**
	(in thousands of RMB)				
Rent	85,586	98,360	125,373	92,907	104,773
Salary	79,481	96,094	133,713	91,929	109,350
Utility	21,521	24,952	30,597	22,901	23,368
Packaging materials	23,016	20,562	31,210	20,812	20,787
Transportation	10,355	15,764	17,722	12,878	16,331
Advertising and promotion expenses	15,610	14,779	25,054	18,026	14,544
Others[1]	62,378	83,118	105,974	74,494	81,648
	297,947	353,629	469,643	333,947	370,801

Note:

(1) "Others" included social insurance, amortization of decoration expenses, depreciation and other miscellaneous items. The increase in the "Others" category during the Track Record Period primarily reflected the increased social insurance expenses as a result of our increased number of employees, the increased amortization and depreciation expenses as a result of our increased number of stores, and the overall increase in our selling expenses as we continued to expand our operations.

Distribution and selling expenses as a percentage of revenue increased steadily during the Track Record Period. Our distribution and selling expenses as a percentage of revenue accounted for approximately 29.8%, 33.7%, 36.6% and 37.6% for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. We expect distribution and selling expenses as a percentage of revenue to continue to increase in the foreseeable future as a result of the increases in rent of our retail outlets and salary expense associated with our sales staff.

Administrative Expenses

Our administrative expenses are comprised mainly of salaries of administrative personnel, depreciation, office expenses and utility expenses. The following table shows a breakdown of the administration expenses by major items for periods indicated.

	For the years ended December 31,			For the nine months ended September 30,	
	2008	2009	2010	2010 (unaudited)	2011
	(in thousands of RMB)				
Salary and employee benefit	18,906	18,974	34,707	24,636	25,700
Depreciation	8,043	10,932	14,816	10,273	11,378
Expenses for the proposed 2008 listing[1]	22,907	11,295	–	–	–
Others[2]	29,393	29,989	32,955	23,263	23,426
	79,249	71,190	82,478	58,172	60,504

Notes:

(1) "Expenses for the proposed 2008 listing" solely reflected the expenses incurred in connection with the Company's proposed listing in 2008 which was subsequently suspended in 2009.

(2) "Others" included travel expenses, utility, rent, taxation, union fees, office expenses, consulting fees, postage and communication expenses, which comprises of postage and telephone expenses, amortization of intangible assets and other miscellaneous items. The fluctuation of the "Others" category during the Track Record Period primarily reflected our increase in number of employees, expansion of our operations and the adoption of certain cost control measures.

Our administrative expenses accounted for approximately 7.9%, 6.8%, 6.4% and 6.1% of our revenue for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. We expect administrative expenses as a percentage of revenue to continue to decrease in the foreseeable future.

Finance Costs

Finance costs are interest expenses associated with our bank borrowings.

Income Tax Expense

We are subject to income and other taxes in the jurisdictions in which we operate. Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss. Our effective income tax rate was approximately 34.0%, 25.3%, 24.4% and 25.9% for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively.

Our Company, Christine International Holdings Limited and Christine International Holdings (BVI) Co., Ltd. are registered in the countries which are exempted from income tax. Our Shuang Hong central bakery was entitled to the two-year exemption, followed by a three-year half deduction starting from 2006. Therefore, our Shuang Hong central bakery was entitled to enterprise income tax half deduction for the three years ended December 31, 2008, 2009 and 2010. Our Jiang Ning central bakery is entitled to two-year exemption, followed by a three-year half deduction starting in 2008. Therefore, our Jiang Ning central bakery was entitled to enterprise income tax half deduction for the year ended December 31, 2010 and will be entitled to such treatment for the two years ended December 31, 2011 and 2012.

RESULTS OF OPERATIONS

The following table shows selected results of operations data derived from our consolidated financial statements for the periods indicated. Our historical results of operations are not necessarily indicative of our results for any future period.

	For the years ended December 31,			For the nine months ended September 30,	
	2008	2009	2010	2010 (unaudited)	2011
	(in thousands of RMB)				
Revenue	1,000,660	1,050,140	1,284,458	894,789	986,456
Cost of sales	(436,726)	(483,651)	(636,182)	(420,632)	(469,203)
Gross profit	563,934	566,489	648,276	474,157	517,253
Other income and gains and losses	16,390	15,338	23,157	13,707	30,274
Other expenses	(3,711)	(1,080)	(1,896)	(589)	(7,076)
Share of loss of an associate	(469)	(282)	(345)	(200)	(30)
Distribution and selling expenses	(297,947)	(353,629)	(469,643)	(333,947)	(370,801)
Administrative expenses	(79,249)	(71,190)	(82,478)	(58,172)	(60,504)
Finance costs	(6,202)	(687)	(271)	(203)	(1,138)
Profit before taxation	192,746	154,959	116,800	94,753	107,978
Income tax expense	(65,614)	(39,212)	(28,451)	(24,686)	(27,944)
Profit and total comprehensive income for the year/period	127,132	115,747	88,349	70,067	80,034
Attributable to:					
Owners of the Company	127,155	115,747	88,349	70,067	80,034
Non-controlling interest	(23)	–	–	–	–
	127,132	115,747	88,349	70,067	80,034

Comparison of Nine Months Ended September 30, 2011 to Nine Months Ended September 30, 2010

Revenue. Our revenue increased by 10.2% from approximately RMB894.8 million for the nine months ended September 30, 2010 to approximately RMB986.5 million for the nine months ended September 30, 2011. The increase was primarily due to an increase in our volume of sales as well as the increased selling prices of certain of our bakery products. Our comparable store growth rate for comparable retail outlets for the nine months ended September 30, 2010 and 2011 was 8.4%. This growth in the comparable store sales primarily reflected increased customer demand for our products and our enhanced marketing and promotion efforts. The revenue per sq.m. per day remained largely stable at approximately RMB54.0 for the nine months ended September 30, 2010 and approximately RMB54.2 in the nine months ended September 30, 2011.

Cost of Sales. Our cost of sales increased by 11.5% from approximately RMB420.6 million for the nine months ended September 30, 2010 to RMB469.2 million for the nine months ended September 30, 2011. This increase reflected the overall increase in the raw material costs and labor costs in line with our increased sales volume, as well as the increased manufacturing cost as a result of the increased depreciation of our Jiang Ning central bakery. Our cost of sales as a percentage of revenue remained stable in both the nine months ended September 30, 2010 and 2011.

Gross Profit. As a result of the factors cited above, our gross profit increased by 9.1% from approximately RMB474.2 million for the nine months ended September 30, 2010 to approximately RMB517.3 million for the nine months ended September 30, 2011. Our gross profit margin decreased slightly from 53.0% in the nine months ended September 30, 2010 to 52.4% in the same period of 2011 because our cost of sales increased at a higher rate than our revenues for the reasons discussed above.

Other Income. Our other income increased by 120.9% from approximately RMB13.7 million for the nine months ended September 30, 2010 to approximately RMB30.3 million for the nine months ended September 30, 2011. This increase was due primarily to the approximately RMB8.4 million increased in gain on expired unpresented coupons and the approximately RMB4.6 million increase in interest income as a result of the increased interest rates for our certain structured deposits linked to bonds and treasury bills issued by the PRC government and arranged by certain local banks.

Other Expenses. Our other expenses increased from approximately RMB0.6 million in the nine months ended September 30, 2010 to approximately RMB7.1 million in the nine months ended September 30, 2011 primarily due to a RMB6.3 million listing expenses in connection with the Global Offering.

Share of Loss of an Associate. We recorded a share of loss of an associate of approximately RMB0.2 million and RMB30,000, respectively, for the nine months ended September 30, 2010 and 2011. The share of loss of an associate was primarily due to our investment in Aroma, a limited liability company incorporated in China that is 25.0% owned by our Group.

Distribution and Selling Expenses. Our distribution and selling expenses increased by 11.0% from approximately RMB333.9 million for the nine months ended September 30, 2010 to approximately RMB370.8 million for the nine months ended September 30, 2011. This increase was primarily due to increases in rental payments, utilities, salaries for our sales and marketing staff as well as our advertising and promotion expenses.

Administrative Expenses. Our administrative expenses increased by 4.0% from approximately RMB58.2 million for the nine months ended September 30, 2010 to approximately RMB60.5 million for the nine months ended September 30, 2011. The increase was primarily due to the approximately RMB1.1 million increase in our salary expenses.

Finance Costs. In nine months ended September 30, 2010 and 2011, we incurred finance costs of approximately RMB0.2 million and approximately RMB1.1 million, respectively.

Profit Before Taxation. As a result of the above factors, our profit before tax increased by 14.0% from approximately RMB94.8 million for the nine months ended September 30, 2010 to approximately RMB108.0 million for the nine months ended September 30, 2011.

Income Tax Expense. Our income tax expense increased from approximately RMB24.7 million for the nine months ended September 30, 2010 to approximately RMB27.9 million for the nine months ended September 30, 2011, primarily as a result of our increased profit before taxation. Our effective income tax rate decreased from 26.1% for the nine months ended September 30, 2010 to 25.9% for the nine months ended September 30, 2011.

Profit and Total Comprehensive Income for the Period. As a result of the above factors, our profit and total comprehensive income for the year increased by 14.2% from approximately RMB70.1 million for the nine months ended September 30, 2010 to approximately RMB80.0 million for the nine months ended September 30, 2011. Net profit margin increased from 7.8% to 8.1% over the same period due to the reasons discussed above.

Profit Attributable to Owners of the Company. As a result of the above factors, profit attributable to owners of the Company was approximately RMB70.1 million for the nine months ended September 30, 2010 and approximately RMB80.0 million for the nine months ended September 30, 2011.

Comparison of Year Ended December 31, 2010 to Year Ended December 31, 2009

Revenue. Our revenue increased by 22.3% from approximately RMB1,050.1 million for the year ended December 31, 2009 to RMB1,284.5 million for the year ended December 31, 2010. The increase was primarily due to increases in our volume of sales as a result of our acquisition of Hangzhou Dan Bi and our continued expansion, as well as our enhanced promotional activities undertaken in connection with the 2010 Shanghai Expo. The increase in sales volume reflected the increase in our number of retail outlets, which enables us to reach new customers. We opened 55 retail outlets (excluding 20 retail outlets opened at the 2010 Shanghai Expo site) in 2010. Despite the increase in the number of new retail outlets, which would typically have lower sales volume than established retail outlets in the first few months of operation, the comparable store sales for comparable retail outlets increased by 9.9% from the year ended December 31, 2009 to the year ended December 31, 2010. This increase in comparable store sales reflected our enhanced promotional activities which achieved better customer awareness, as well as the improved sales amount of our retail outlets newly acquired from the Dan Bi (Hangzhou) acquisition. Our revenue per sq.m. per day increased by 10.5% from approximately RMB47.4 for the year ended December 31, 2009 to RMB52.4 for the year ended December 31, 2010. The increase was primarily due to our acquisition of Hangzhou Danbi, through which we added 51 additional retail outlets that generally have higher revenue per sq.m. per day than our newly-opened stores.

Cost of Sales. Our cost of sales increased by 31.5% from approximately RMB483.7 million for the year ended December 31, 2009 to RMB636.2 million for the year ended December 31, 2010. This increase reflected (i) the overall increase in the raw material costs and labor costs; (ii) the increased costs of packaging materials for our retail outlets in the 2010 Shanghai Expo site; and (iii) the increased depreciation of our Jiang Ning central bakery. The cost of sales also reflected the increased manufacturing costs as a result of our relocation of our Shuang Hong central bakery.

Gross Profit. As a result of the factors cited above, our gross profit increased by 14.4% from approximately RMB566.5 million for the year ended December 31, 2009 to RMB648.3 million for the year ended December 31, 2010. Our gross profit margin decreased from 53.9% to 50.5% over the same period because our cost of sales increased at a faster rate than our revenues for the reasons discussed above.

Other Income. Our other income increased by 51.0% from approximately RMB15.3 million for the year ended December 31, 2009 to RMB23.2 million for the year ended December 31, 2010. This increase was due primarily to the RMB7.3 million increase in government grant, as well as a RMB1.6 million increase in our gain on expired unredeemed coupons.

Other Expenses. Our other expenses increased from approximately RMB1.1 million for the year ended December 31, 2009 to RMB1.9 million for the year ended December 31, 2010. The increase was primarily due to increases of miscellaneous expenses.

Share of Loss of an Associate. We recorded a share of loss of an associate of approximately RMB0.3 million and RMB0.3 million, respectively, for the years ended December 31, 2009 and 2010. The share of loss of an associate was primarily due to our investment in Aroma, a limited liability company incorporated under the laws of the PRC on December 29, 2006 that is 25.0% owned by our Group.

Distribution and Selling Expenses. Our distribution and selling expenses increased by 32.8% from approximately RMB353.6 million for the year ended December 31, 2009 to RMB469.6 million for the year ended December 31, 2010. This increase was primarily due to increases in rental payments, utilities, consumable goods and salaries for the new employees of our retail outlets as a result of the increase in the number of our retail outlets, as well as our increased advertising expenses as part of our sponsorship of the 2010 Shanghai Expo.

Administrative Expenses. Our administrative expenses increased by 15.9% from approximately RMB71.2 million for the year ended December 31, 2009 to RMB82.5 million for the year ended December 31, 2010. The increase was primarily due to the increasing labor costs in the PRC and the increases in salaries and employee benefits associated with the increased headcount as part of our continued expansion. Our total number of employees increased from 7,010 as of December 31, 2009 to 7,652 as of December 31, 2010.

Finance Costs. Our finance costs decreased approximately from RMB0.7 million for the year ended December 31, 2009 to RMB0.3 million for the year ended December 31, 2010. This decrease was due to a less interest payment in 2010 as a result of a shorter period covered by the bank borrowings.

Profit Before Taxation. As a result of the above factors, our profit before tax decreased by 24.6% from approximately RMB155.0 million for the year ended December 31, 2009 to RMB116.8 million for the year ended December 31, 2010.

Income Tax Expense. Our income tax expense decreased from approximately RMB39.2 million for the year ended December 31, 2009 to RMB28.5 million for the year ended December 31, 2010. Our effective income tax rate decreased from 25.3% for the year ended December 31, 2009 to 24.4% for the year ended December 31, 2010. This decrease in the effective tax rate primarily reflected the increased profit contribution of our PRC subsidiaries that are entitled to preferential income tax rates in 2010.

Profit and Total Comprehensive Income for the Year. As a result of the above factors, our profit and total comprehensive income for the year decreased by 23.7% from approximately RMB115.7 million for the year ended December 31, 2009 to RMB88.3 million for the year ended December 31, 2010. Net profit margin decreased from 11.0% to 6.9% over the same period primarily due to an increase in cost of sales as a percentage of revenue for the reasons discussed above and increases in distributions and selling expenses as a percentage of revenue.

Profit Attributable to Owners of the Company. As a result of the above factors, profit attributable to owners of the Company in 2009 was approximately RMB115.7 million and RMB88.3 million in 2010.

Comparison of Year Ended December 31, 2008 to Year Ended December 31, 2009

Revenue. Our revenue increased by 4.9% from approximately RMB1,000.7 million for the year ended December 31, 2008 to RMB1,050.1 million for the year ended December 31, 2009. The increase was primarily due to increases in our volume of sales, which primarily reflected the increase in our number of retail outlets. We opened 127 retail outlets (including 51 retail outlets acquired through the Dan Bi (Hangzhou) acquisition) in fiscal 2009. Our comparable store sales for comparable retail outlets increased by 1.7% from the year ended December 31, 2008 to the year ended December 31, 2009. This growth in the comparable store sales primarily reflected increased customer demand for our products and our enhanced marketing and promotion efforts. Our revenue per sq.m. per day decreased by 6.7% from RMB50.8 for the year ended December 31, 2008 to RMB47.4 for the year ended December 31, 2009. The decrease was primarily due to intensified competition as well as the impact on consumer spending as a result of the global economic crisis.

Cost of Sales. Our cost of sales increased by 10.8% from approximately RMB436.7 million for the year ended December 31, 2008 to RMB483.7 million for the year ended December 31, 2009. This increase primarily reflected the increased manufacturing costs and depreciation as our Jiang Ning central bakery commenced operation.

Gross Profit. As a result of the factors cited above, our gross profit increased slightly by 0.5% from approximately RMB563.9 million for the year ended December 31, 2008 to RMB566.5 million for the year ended December 31, 2009. Our gross profit margin decreased from 56.4% to 53.9% over the same period because our cost of sales increased at a faster rate than our revenues for the reasons discussed above.

Other Income. Our other income decreased by 6.7% from approximately RMB16.4 million for the year ended December 31, 2008 to RMB15.3 million for the year ended December 31, 2009. This decrease was primarily because we did not record any exchange gains in 2009, partially offset by an RMB0.8 million increase in government grant and a fair value adjustment for held for trading financial assets as we disposed certain held-for-trading securities in 2008. The held-for-trading securities were listed on the Shanghai Stock Exchange of the PRC, and were subscribed by us upon their initial public offerings and subsequently sold at their then quoted market prices for RMB1.5 million in 2008.

Other Expenses. Our other expenses decreased from approximately RMB3.7 million for the year ended December 31, 2008 to RMB1.1 million for the year ended December 31, 2009.

Share of Loss of an Associate. The share of loss of an associate decreased from approximately RMB0.5 million for the year ended December 31, 2008 to RMB0.3 million for the year ended December 31, 2009, primarily due to the improved performance of Aroma, which is 25.0% owned by our Group.

Distribution and Selling Expenses. Our distribution and selling expenses increased by 18.7% from approximately RMB297.9 million for the year ended December 31, 2008 to RMB353.6 million for the year ended December 31, 2009. This increase was primarily due to increases in rental payments, utilities, consumable goods, and salaries for new employees of our retail outlets as a result of the increase in the number of our retail outlets, as well as increased delivery expenses as we started to outsource the logistic services from third party service providers.

Administrative Expenses. Our administrative expenses decreased slightly from approximately RMB79.2 million for the year ended December 31, 2008 to RMB71.2 million for the year ended December 31, 2009. The decrease was primarily due to a decrease in professional fees as we recorded higher professional fees in 2008 in connection with our proposed initial public offering, partially offset by increases in salaries and employee social insurance and welfare benefits associated with the increase in headcount from 5,835 as of December 31, 2008 to 7,010 as of December 31, 2009 as part of our continued expansion.

Finance Costs. Our finance costs decreased from approximately RMB6.2 million for the year ended December 31, 2008 to RMB0.7 million for the year ended December 31, 2009. This decrease was primarily a lower interest payment in 2009 as a result of a shorter period covered by the bank borrowings. The principal amount of the bank borrowings outstanding as of December 31, 2008 and 2009 was RMB59.5 million and RMB142.8 million, respectively.

Profit Before Taxation. As a result of the above factors, our profit before tax decreased by 19.6% from approximately RMB192.7 million for the year ended December 31, 2008 to RMB155.0 million for the year ended December 31, 2009.

Income Tax Expense. Our income tax expense decreased from approximately RMB65.6 million for the year ended December 31, 2008 to RMB39.2 million for the year ended December 31, 2009. Our effective income tax rate decreased from 34.0% for the year ended December 31, 2008 to 25.3% for the year ended December 31, 2009. The decrease in income tax expense primarily reflected an approximately RMB20.1 million provision of withholding income tax based on the anticipated dividends to be distributed to our offshore subsidiary out of the profits of our PRC subsidiaries in 2008.

Profit and Total Comprehensive Income for the Year. As a result of the above factors, our profit and total comprehensive income for the year decreased by 9.0% from approximately RMB127.1 million for the year ended December 31, 2008 to RMB115.7 million for the year ended December 31, 2009. Net profit margin decreased from 12.7% to 11.0% over the same periods primarily due to an increase in cost of sales as a percentage of revenue for the reasons discussed above and increases in distributions and selling expenses as a percentage of revenue.

Profit Attributable to Owners of the Company. As a result of the above factors, profit attributable to owners of the Company in 2008 was approximately RMB127.2 million and RMB115.7 million in 2009.

Profit Attributable to Minority Interest. As a result of the above factors, profit attributable to minority interest in 2008 was approximately RMB0.02 million. Minority interest relates to income or loss primarily owed to minority owners in Shanghai Ji Yuan De, our 92.0% subsidiary prior to becoming wholly-owned by us on January 8, 2008. As a result, we no longer recognize a minority interest with respect to this subsidiary.

LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity and capital requirements primarily relate to capital expenditures for the purchase of property, plant and equipment. We have historically met our working capital and other liquidity requirements principally from cash generated from our operations, bank borrowings and equity contributions from shareholders. Going forward, we expect to fund our foreseeable working capital, capital expenditures and other capital requirements with a combination of various sources, including cash generated from our operations, bank borrowings and the net proceeds from the Global Offering.

From time to time, we evaluate possible long-term investments, acquisitions or divestments in other PRC bakery chains or enterprises that are consistent with the Company's long term strategy and may, if a suitable opportunity arises, make an investment or acquisition or conduct a divestment. We currently have no commitments to make any material investment or acquisition or conduct any divestment.

In addition, to better manage our cash position, we may from time to time enter into demand deposits or purchase certain low-risk, fixed-income financial assets as short-term investments, such structured deposits linked to government bonds and treasury bills issued by the PRC government and arranged by certain local banks in the PRC where we operate. These deposits or financial assets have pre-determined terms of less than one year and normally have a more favorable fixed interest rate than the demand deposits. Our Directors confirm that the Group will not enter into short-term equity investments and that the Group will enter into such demand deposits or purchase such financial assets only upon the following conditions, as our Board may adjust from time to time, as appropriate, are satisfied:

(i) the working capital and other capital requirements of the Group for the six months after entering into such demand deposits or purchasing such financial assets is sufficient and secured; and

(ii) the terms and conditions of such financial assets are designed to the effect that the principal amount of the investments will be protected under all circumstances.

Cash Flows

The following table shows our net cash from operating activities, net cash used in investing activities and net cash from/used in financing activities for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2008	**2009**	**2010**	**2010 (unaudited)**	**2011**
	(in thousands of RMB)				
Net cash from (used in) operating activities	248,654	322,371	244,852	427,796	395,672
Net cash from (used in) investing activities	(241,923)	(123,516)	(389,850)	(96,977)	274,943
Net cash from (used in) financing activities	7,900	27,216	(113,846)	(88,341)	(45,177)
Net increase (decrease) in cash and cash equivalents	14,631	226,071	(258,844)	242,478	625,438
Cash and cash equivalents at beginning of the year/period	353,266	367,897	593,968	593,968	335,124
Cash and cash equivalents (comprising bank balances and cash) at end of the year/period	367,897	593,968	335,124	836,446	960,562

Cash from Operating Activities

For the nine months ended September 30, 2011. Our net cash from operating activities of approximately RMB395.7 million for the nine months ended September 30, 2011 was principally attributable to profit before taxation of RMB108.0 million, an increase in deposit from customers of approximately RMB250.4 million in connection with the sales of coupons to our customers, partially offset by an increase in inventories as a result of the payment made for settlement of a significant portion of our purchase of certain packaging materials for our Jiang Ning central bakery.

For the year ended December 31, 2010. Our net cash generated from operating activities of approximately RMB244.9 million for the year ended December 31, 2010 was principally attributable to profit before tax of RMB116.8 million, an increase in deposit from customers of RMB80.2 million in connection with the sale of coupons to our customers and an increase in trade and other payables of RMB27.3 million mainly relating to the purchase of raw materials.

For the year ended December 31, 2009. Our net cash generated from operating activities of approximately RMB322.4 million for the year ended December 31, 2009 was principally attributable to profit before tax of RMB155.0 million, an increase in deposit from customers of RMB140.2 million in connection with the sale of coupons to our customers, an decrease in trade and other payables of RMB12.9 million mainly relating to the purchase of raw materials and a decrease of amounts due from related companies of RMB15.7 million.

For the year ended December 31, 2008. Our net cash generated from operating activities of approximately RMB248.7 million for the year ended December 31, 2008 was principally attributable to profit before tax of RMB192.7 million and an increase in deposit from customers of RMB95.0 million relating to the prepayments by our customers for our coupon sales.

Cash from (used in) Investing Activities

For the nine months ended September 30, 2011. Our net cash from investing activities of approximately RMB274.9 million for the nine months ended September 30, 2011 was principally attributable to the proceeds from disposal of other financial assets of RMB990.0 million as certain of our structured deposits with fixed interest rates matured and a decrease in pledged bank deposits of RMB43.8 million, partially offset by the increase of RMB745.0 million in other financial assets such as structured deposit with fixed interest rates.

For the year ended December 31, 2010. Our net cash used in investing activities of approximately RMB389.9 million for the year ended December 31, 2010 was principally attributable to an increase of RMB220.0 million in other financial assets, such as structured deposit with fixed interest rate, as well as the RMB141.9 million purchase of property, plant and equipment for the expansion and upgrade of our Jiang Ning central bakery and other existing production facilities.

For the year ended December 31, 2009. Our net cash used in investing activities of approximately RMB123.5 million for the year ended December 31, 2009 was principally attributable to RMB84.7 million in connection with equipment purchases for our Jiang Ning central bakery, as well as the RMB35.0 million payment of other financial assets.

For the year ended December 31, 2008. Our net cash used in investing activities of approximately RMB241.9 million for the year ended December 31, 2008 was principally attributable to RMB188.4 million in connection with purchases of equipment for our Jiang Ning central bakery, as well as a RMB60.0 million increase in pledged bank deposit.

Cash from (used in) Financing Activities

For the nine months ended September 30, 2011. Our net cash used in financing activities of approximately RMB45.2 million for the nine months ended September 30, 2011 was principally attributable to our repayment of bank borrowings of RMB43.2 million.

For the year ended December 31, 2010. Our net cash used in financing activities of approximately RMB113.8 million for the year ended December 31, 2010 was principally attributable to a repayment of our bank borrowings of RMB143.0 million, partially offset by RMB75.3 million proceeds from bank borrowings.

For the year ended December 31, 2009. Our net cash generated from financing activities of approximately RMB27.2 million for the year ended December 31, 2009 was principally attributable to the proceeds from bank borrowings of RMB142.8 million, partially offset by the repayment of bank borrowings of RMB59.7 million and RMB44.9 million dividends paid to owners of the Company.

For the year ended December 31, 2008. Our net cash generated from financing activities of approximately RMB7.9 million for the year ended December 31, 2008 was principally attributable to the proceeds from bank borrowings of RMB113.1 million and a capital injection by minority shareholders of RMB52.6 million, partially offset by payment for acquisition of additional interest in a subsidiary of RMB37.2 million, dividends paid to owners of the Company and non-controlling equity holders of the Company of RMB64.2 million and RMB2.9 million, respectively, as well as a repayment of bank borrowings of RMB50.0 million.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

The following table provides selected information regarding our contractual obligations to make payments as of the dates indicated:

	As of December 31,			As of September 30,
	2008	2009	2010	2011
	(in thousands of RMB)			
Capital expenditure contracted for but not provided in the Financial Information in respect of the acquisition of property, plant and equipment	31,345	19,005	2,464	5,729
Minimum lease payments of rented retail outlets under non-cancellable operating lease				
Within one year	74,894	92,575	123,536	131,736
In the second to fifth year inclusive	126,275	153,392	195,586	184,239
After five years	11,393	10,929	26,376	36,375
	212,562	256,896	345,498	352,350

WORKING CAPITAL

Taking into account the net proceeds of the Global Offering, available bank facilities and net cash from operating activities, our Directors confirm that we have sufficient working capital to meet our present requirements and future requirements for at least the next twelve months from the date of this prospectus. As of November 30, 2011, we have unused bank facilities in the amount of RMB100 million.

CAPITAL EXPENDITURES

Our principal capital expenditures relate primarily to the acquisition of land use right and the construction and expansion of our production facilities located in Shanghai and Nanjing. The following table shows our capital expenditures for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2008	2009	2010	2010 (unaudited)	2011
	(in thousands of RMB)				
Capital Expenditures					
Prepaid lease payments for land	–	449	18,817	2,060	–
Property, plant and equipment	188,398	84,691	141,907	121,210	31,729
Total	188,398	85,140	160,724	123,270	31,729

INTEREST IN ASSOCIATES

On December 29, 2006, we invested JPY30.0 million in Aroma and hold 25% of the entire equity interest of Aroma, which is now an affiliate of our Group. The table below sets forth the summarized financial information of Aroma:

	As of December 31,			As of September 30,
	2008	2009	2010	2011
	(in thousands of RMB)			
Total assets	5,905	7,121	7,322	7,706
Total liabilities	(1,964)	(4,306)	(5,887)	(6,391)
Net assets	3,941	2,815	1,435	1,315
Group's share of net assets of the associate	977	695	350	320
Losses for the year/period	(1,877)	(1,126)	(1,380)	(119)
Group's share of losses of associate for the year	(469)	(282)	(345)	(30)

NET CURRENT LIABILITIES/ASSETS

We had net current liabilities of approximately RMB71.4 million, RMB86.3 million and RMB88.9 million as of December 31, 2008, 2009 and 2010 and had net current assets of approximately RMB31.7 million as of September 30, 2011, respectively. Our net current liabilities positions in 2008, 2009 and 2010 were mainly due to the fact that we recorded a large number of deposit from customers as a result of our coupon sales in each of 2008, 2009 and 2010. When our customers use our coupons to purchase our products, such deposit from customers will be recognized as revenue, leading to a decrease in our liabilities. As such, our Directors are of the view that our Group has sufficient funds to finance our current working capital requirements taking into account the cash flows from operations.

The table below provides a breakdown of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of September 30,	As of November 30,
	2008	2009	2010	2011	2011
	(in thousands of RMB)				
Current assets					
Inventories	17,369	20,960	26,217	43,070	36,945
Tax recoverables	–	5,548	15,760	16,566	15,956
Trade and other receivables	60,320	61,020	76,403	83,230	87,372
Amounts due from related companies	17,928	2,200	4,885	1,125	1,185
Amounts due from a director	–	4,976	1,313	–	–
Other financial assets	–	35,000	255,000	10,000	350,000
Pledged bank deposits	60,000	49,772	76,020	32,184	–
Bank balances and cash	367,897	593,968	335,124	960,562	476,629
Total current assets	523,514	773,444	790,722	1,146,737	968,087
Current liabilities					
Trade and other payables	144,714	143,017	136,801	164,305	145,343
Deposit from customers	362,347	533,363	613,528	863,975	726,010
Amounts due to related companies	18,344	30,550	42,709	37,719	36,672
Amounts due to a director	199	–	–	–	–
Tax payables	9,863	4,951	6,399	13,579	4,653
Dividend payables	–	4,977	4,977	4,977	4,977
Borrowings	59,495	142,848	75,253	30,496	–
Total current liabilities	594,962	859,706	879,667	1,115,051	917,655
Net current assets (liabilities)	(71,448)	(86,262)	(88,945)	31,686	50,432

INVENTORY ANALYSIS

The following table shows a summary of our inventory balances as of the dates indicated:

	As of December 31,			As of September 30,
	2008	2009	2010	2011
		(in thousands of RMB)		
Raw materials	12,437	12,372	16,110	26,839
Finished goods	4,932	8,588	10,107	16,231
	17,369	20,960	26,217	43,070

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

	For the years ended December 31,			For the nine months ended September 30,
	2008	2009	2010	2011
Inventory turnover days[(1)]	15	14	14	20

Note:

(1) Inventory turnover days are calculated based on the arithmetic mean of the opening and closing balances of inventories divided by cost of sales for the relevant period and multiplying by 365 days (or 270 days for the nine months ended September 30, 2011).

Our inventory increased steadily from RMB17.4 million in 2008, to RMB21.0 million in 2009 and further to RMB26.2 million in 2010 and the average inventory turnover days for the same periods remained largely stable within the range of 14 to 15 days. For the nine months ended September 30, 2011, our inventory increased to RMB43.1 million, primarily as a result of the fact that we typically retain higher inventories in the third quarter to meet the higher demand of raw materials in the last two quarters of each year. Our average inventory turnover days increased to 20 days for the nine months ended September 30, 2011 as a result of the increased inventory balance.

According to our inventory provision policy for both raw materials and finished goods, inventories are measured at the lower of cost and net realizable value at the end of a period. Where the net realizable value is lower than the cost, the difference is recognized as a provision for decline in value. Net realizable value is the estimated selling price of the products in the ordinary course of business, less the estimated costs to produce, as well as the estimated expenses and related taxes necessary to complete the sale. The foregoing inventory provision policy has been consistently applied throughout the Track Record Period.

The following table shows a breakdown of inventory items in terms of ranges of product shelf lives by product category:

Product Category	Range of Shelf Life
Bread and Cakes	
Bread	one to four days
Cakes.	one to 20 days
Moon Cakes	45 to 90 days
Pastries	15 to 270 days
Others	15 to 365 days

Age of Inventories

The following table is an aged analysis of our inventories as of the dates indicated:

	As of December 31,			As of September 30,
	2008	2009	2010	2011
	(in thousands of RMB)			
Age				
0 to six months	15,595	19,479	24,926	40,918
six to 12 months	558	262	310	517
over 12 months[(1)]	1,216	1,219	981	1,635
	17,369	20,960	26,217	43,070

Note:

(1) Inventories held over 12 months include ancillary items including candles and plastic forks for one-time use, and packaging materials such as paper bags, plastic bags and plastic film.

TRADE AND OTHER RECEIVABLES

Our trade receivables are mainly due from department stores, supermarkets and cash consumer card issuers.

Sales proceeds from our retail outlets, which are located in department stores and supermarkets, are normally collected and paid to us by the department stores and supermarkets within a 30 to 60 days period after the sales of the products. There is no credit period for direct sales of our products from the self-owned retail outlets and all of our products are sold to these customers on a cash basis (including redemption of coupons).

We periodically monitor and review the credit conditions of the department stores and cash consumer card issuers. Our management considers the fact that we do not have significant credit risks because those department stores and cash consumer card issuers generally have a good reputation. We have provided full allowance for certain overdue receivables because the management has assessed the recoverability of each overdue receivable and determined that those receivables are generally not recoverable.

Our trade receivables turnover days were generally stable during the Track Record Period. Our trade receivables turnover days were 6, 7, 7 and 8 for the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, respectively. All our outstanding non-trade receivables due from a related party has been settled in June 2011.

Age of Trade Receivables

The following table is an aged analysis of our trade receivables as of the dates indicated:

	As of December 31,			As of September 30,
	2008	2009	2010	2011
	(in thousands of RMB)			
Age				
0 to 30 days	13,961	15,168	20,332	20,592
31 to 60 days	2	404	–	5,386
61 to 90 days	1,605	6,957	5,287	3,076
91 to 180 days	–	432	1,056	1,294
Over 180 days	487	835	374	4
	16,055	23,796	27,049	30,352

Provisioning Policy for Trade Receivables

Our accounting department is in charge of the management of trade receivables. It runs a monthly analysis on trade receivables. For our sales to customers who are not individual retail customers, our sales personnel are required to run credit checks against such customers before the sales are made. In order to avoid the occurrences of unrecoverable trade receivables, our policy requires us to enter into a written sales agreement with such customers, which explicitly sets out the date of payment, the method of settlement and the liability for delinquent payment. We also maintain an internal control reporting system for trade receivables, under which our sales personnel are required to run monthly record checks in order to collect payments in a timely manner. Any unrecoverable trade receivables are required to be reported to our senior management. Our trade receivables provisioning policy uses the allowance method and allowances are provided for according to the recoverability of receivables, which are determined based on past experience, actual financial position and cash flows of the debtors, as well as other relevant information.

TRADE AND OTHER PAYABLES

Our trade payables mainly relate to the purchase of raw materials, other tax payables primarily consisting of the value added tax payable and other payables primarily consisting of the payables for the labor union, employee welfare and employee social insurance. We normally receive credit terms of 45 to 60 days from our suppliers after receipt of goods.

Our trade payables increased by 28.8% from approximately RMB55.3 million as of December 31, 2009 to RMB71.2 million as of December 31, 2010. The increase mainly reflected the increased raw material costs and our increase purchase volume as a result of our continued expansion. Our trade payables subsequently increased to RMB85.7 million as of September 30, 2011, primarily due to the prepaid expenses for our purchase of raw materials. Our other tax payables decreased from approximately RMB10.2 million as of December 31, 2008 to RMB6.6

million as of December 31, 2009, to RMB4.3 million as of December 31, 2010, primarily due to a significant prepayment of value added tax paid for the years ended December 31, 2009 and 2010. Our other tax payable subsequently increased to RMB12.3 million as of September 30, 2011, primarily due to the moon cake sales in September. Our payroll and welfare payables increased from approximately RMB17.3 million as of December 31, 2008 to RMB22.0 million as of December 31, 2009, to RMB32.8 million as of December 31, 2010 and further to RMB24.6 million as of September 30, 2011, primarily due to our continued expansion and the increase in the number of our staff members, as well as the increase in compensation level of our employees. We typically grant and pay bonuses to our employees in the first quarter of each year.

The turnover of trade payables maintained relatively stable at 42 days for the year ended December 31, 2008, 40 days for the year ended December 31, 2009, and 36 days for the year ended December 31, 2010. The turnover of trade payables increased to 46 days for the nine months ended September 30, 2011 primarily reflected our increased amount of trade payables.

Age of Trade Payables

The following table is an aged analysis of our trade payables as of the dates indicated:

	As of December 31,			As of September 30,
	2008	2009	2010	2011
	(in thousands of RMB)			
Age				
0 to 45 days	41,150	43,789	44,206	70,499
46 to 60 days	7,362	10,382	17,229	10,532
61 to 90 days	360	183	1,518	2,410
91 to 180 days	764	288	1,906	179
Over 180 days	711	706	6,353	2,073
	50,347	55,348	71,212	85,693

DEPOSIT FROM CUSTOMERS

Deposit from customers mainly represents the money received from customers for the sales of coupons.

The deposit from customers we recorded is inclusive of a value-added tax of 17%. When we recognize revenue or other income, we exclude 17% value-added tax. With respect to coupons that have expired, we are not obligated to accept and redeem them. However, we generally give a three-month grace period for customers to redeem the expired coupons. Furthermore, if customers present the coupons for redemption after the fixed term and three-month grace period, we may still accept the redemption of such coupons with further extension of grace period for up to 12 months on an ad hoc basis when they apply for such extension at our customer service department at a cost of coupon printing (RMB0.5 for each paper coupon and RMB5.0 for each electronic prepaid card), which are recorded as other income in our consolidated statement of comprehensive income. Under this practice, the remaining balances of issued coupons expired over one year were recognized as other income in light of all our contractual and constructive obligations having been fully discharged. We have a policy in place to closely monitor the coupon transactions and periodically assess the current status of coupon transactions in order to ensure the current accounting treatment reflects the most recent trend and pattern of the coupon transactions accurately and prudently, and will make proper adjustment to the policy when necessary.

The following table sets forth the movement of deposits from customers relating to coupon sales:

	For the years ended December 31,			For the nine months ended September 30,
	2008	2009	2010	2011
	(in thousands of RMB)			
Opening balance	267,311	360,829	532,192	609,942
Addition	656,914	833,629	872,287	875,899
Redemption charged to revenue	(555,876)	(656,022)	(786,380)	(613,732)
Amount expired charged to other income	(7,520)	(6,244)	(8,157)	(10,163)
Ending balance	360,829	532,192	609,942	861,946

Subsequent to December 31, 2010 and up to September 30, 2011, customers had redeemed coupons amounting to approximately RMB613.7 million.

INDEBTEDNESS

Borrowings

During the Track Record Period, we took out the loan for the purpose of distribution of dividends declared to our shareholders, although we had sufficient cash and bank balance at the time the dividend were declared. Furthermore, we entered into foreign exchange forward contracts to use RMB to purchase US Dollars at a pre-determined rate to repay US$ denominated loan in order to stabilize the future cash flow arising from the changes in foreign exchange rate. As of September 30, 2011, our outstanding bank borrowings amounted to approximately RMB30.5 million. The loan was secured by a pledged bank deposit of approximately RMB31.9 million and we had used the pledged bank deposit to settle the loan at maturity. As of November 30, 2011, being the latest practicable date for the purpose of this statement, we had no outstanding bank borrowings.

Our Directors confirm that as of the close of business on November 30, 2011, as disclosed above, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Other than the items disclosed in the section headed "Financial Information – Contractual Obligations and Capital Commitments" in this prospectus, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as stockholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or R&D services with us.

KEY FINANCIAL RATIOS

The current asset ratio and the return on equity are financial ratios that are relevant to the analysis of our financial performance. Our current asset ratio, defined to mean current assets value divided by current liabilities, was 88.0% for the year ended December 31, 2008, 90.0% for the year ended December 31, 2009, 89.9% for the year ended December 31, 2010 and 102.8% for the nine months ended September 30, 2011. Our current asset ratio remained largely constant throughout the Track Record Period. Our return on equity, defined to mean the profit attributable to owners as a percentage of the average equity, was 22.5% for the year ended December 31, 2008, 17.4% for the year ended December 31, 2009, 12.3% for the year ended December 31, 2010 and 10.2% for the nine months ended September 30, 2011. The decrease in return on equity during the Track Record Period was primarily due to the decreased profit attributable to owners and increases in capital due to our increased retained earnings.

DIVIDEND POLICY

We declared and distributed dividends in U.S. dollars in an amount equivalent to nil, approximately RMB49.8 million, approximately RMB43.5 million and nil to our shareholders in 2008, 2009, 2010 and the nine months ended September 30, 2011, respectively.

Our Board may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law. Our shareholders at a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as appear to our Board to be justified by our profits, or special dividends of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested enterprises, such as most of our subsidiaries in China, to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends.

Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future.

FINANCIAL RISK FACTORS

Our activities expose us to a variety of financial risks, including inflation risk, market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

Inflation Risk

According to the National Bureau of Statistics of China, the PRC's overall national inflation rate as represented by the general consumer price index was 5.9% for 2008, (0.7)% for 2009 and 3.3% for 2010. In the first nine months of 2011, the general consumer price index increased by 5.7% year on year. The inflation rate in the PRC has been subject to an upward trend since 2007. Increased inflation could cause the cost of our raw materials to increase, thereby decreasing our profit margins, and could also cause consumer purchasing power to be eroded, which could in turn lead to a decline in our sales. There can be no assurance as to what impact the inflation may have on our business.

Interest rate risks

Our Group has limited exposure to interest rate risk because our Group has no interest-bearing financial assets/liabilities other than bank deposits and bank borrowings. The future variations in interest rates will not have a significant impact on the results of our Group, as our Group's variable-rate bank deposits are all short-term in nature. The interest rate of the bank loan was fixed and may only expose our Group to fair value interest rate risk. Therefore, our Group has not prepared the interest rate sensitivity analysis.

Foreign exchange risk

Our Group collects all of its revenue in RMB and most of the expenditures are also determined in RMB. However, as of December 31, 2008, 2009 and 2010 and September 30, 2011, our Group has external bank borrowings denominated in foreign currency, which was raised for the purpose of financing the dividend payment in foreign currency as set out in Note 31 of Notes to the Financial Information set out in Appendix I to this prospectus, which expose our Group to foreign currency risk. Our Group has entered into certain foreign currency forward contracts with certain banks to fix the exchange rate for the bank borrowings repayment to mitigate the exposure.

The sensitivity analysis has not been presented as the directors of our Company consider that the foreign exchange risk to our Group is minimal due to our foreign currency forward contracts.

Credit risk management

Our Group's maximum exposure to credit risk, which may cause a financial loss to our Group due to failure to discharge obligations by the counterparties, is the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

Most of our Group sales are conducted in cash or via prepayment by our customers. Our Group's trade receivables are primarily due from department stores and cash consumer card issuers. Our Group will closely monitor and periodically review the credit conditions of the department stores and cash consumer card issuers. In addition, our Group's other receivables primarily consist of a rental deposit which has minor risk for collecting. Our Group reviews the recoverable amount of each individual other receivable at the end of reporting period to ensure that adequate impairment losses provisions are made for irrecoverable amounts. In this regard, the directors of our Company consider that our Group's credit risk is significantly reduced. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by our Group's management based on prior experience and their assessment of the current economic environment.

Our Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

With respect to credit risk arising from the other financial assets of our Group which comprise bank balances and pledged bank deposits, our Group's exposure to credit risk arising from default of counterparties is limited as the counterparties are state-owned banks located in PRC.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of our Group's short, medium and long-term funding and liquidity management requirements. Our Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and by continuously monitoring forecasted and actual cash flows.

Our Group had net current liabilities of approximately RMB71.4 million, RMB86.3 million and RMB88.9 million as of December 31, 2008, 2009 and 2010, respectively. As of September 30, 2011, we had net current assets of approximately RMB31.7 million. The Financial Information has been prepared on a going concern basis because the directors believe that our Group has sufficient funds to finance its current working capital requirements taking into account of the cash flows from operations.

Liquidity and interest risk tables

The following tables detail our Group's remaining contractual obligations for its non-derivative financial liabilities at the end of each reporting period. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which our Group can be required to pay.

In addition, the following table details our liquidity analysis for our derivative financial instruments. The tables have been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement. The liquidity analysis for our derivative financial instruments are prepared based on the contractual maturities as our management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	Total un-discounted cash flows RMB'000	Carrying amount RMB'000
December 31, 2008						
Non-derivative financial liabilities						
Trade and other payables	N/A	123,387	–	–	123,387	123,387
Amount due to related companies	N/A	18,344	–	–	18,344	18,344
Borrowings	4.32	59,495	–	–	59,495	59,495
Amount due to a director	N/A	199	–	–	199	199
		201,425	–	–	201,425	201,425
Derivatives – Gross settlement						
Foreign exchange forward contracts						
– inflow	N/A	59,475	–	–	59,475	N/A
– outflow	N/A	(59,322)	–	–	(59,322)	N/A
		153	–	–	153	–
December 31, 2009						
Non-derivative financial liabilities						
Trade and other payables	N/A	129,752	–	–	129,752	129,752
Amount due to related companies	N/A	30,550	–	–	30,550	30,550
Borrowings	3.74	–	1,158	147,269	148,427	142,848
Dividend payables	N/A	4,977	–	–	4,977	4,977
		165,279	1,158	147,269	313,706	308,127
Derivatives – Gross settlement						
Foreign exchange forward contracts						
– inflow	N/A	–	–	49,757	49,757	N/A
– outflow	N/A	–	–	(50,085)	(50,085)	N/A
		–	–	(328)	(328)	–
December 31, 2010						
Non-derivative financial liabilities						
Trade and other payables	N/A	121,180	–	–	121,180	121,180
Amount due to related companies	N/A	42,709	–	–	42,709	42,709
Borrowings	2.38	–	43,834	32,851	76,685	75,253
Dividend payables	N/A	4,977	–	–	4,977	4,977
		168,866	43,834	32,851	245,551	244,119
Derivatives – Gross settlement						
Foreign exchange forward contracts						
– inflow	N/A	–	43,406	31,516	74,922	N/A
– outflow	N/A	–	(43,887)	(31,584)	(75,471)	N/A
		–	(481)	(68)	(549)	–

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	Total un-discounted cash flows RMB'000	Carrying amount RMB'000
September 30, 2011						
Non-derivative financial liabilities						
Trade and other payables	N/A	134,807	–	–	134,807	134,807
Amount due to related companies	N/A	37,719	–	–	37,719	37,719
Borrowings	3.37	–	30,667	–	30,667	30,496
Dividend payables	N/A	4,977	–	–	4,977	4,977
		177,503	30,667	–	208,170	207,999
Derivatives – Gross settlement						
Foreign exchange forward contracts						
– inflow	N/A	–	30,620	–	30,620	N/A
– outflow	N/A	–	(31,584)	–	(31,584)	N/A
		–	(964)	–	(964)	–

PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuation company, has valued our property interests comprising our Group as of November 30, 2011 and is of the opinion that our Group's property interests were valued at an aggregate amount of approximately RMB549,828,000 as of November 30, 2011. Texts of its letters, summary of valuation and valuation certificates issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited are included in Appendix IV to this prospectus.

The table below shows the reconciliation of the net book value of our property interests as of September 30, 2011 with the valuation of such interests as of November 30, 2011 as stated in Appendix IV to this prospectus:

Net Book Value of Property Interests of our Group as of September 30, 2011:	**(RMB'000)**
Leasehold land and land use rights	54,188
Buildings	295,307
Total as of September 30, 2011	349,495
Movements during the two months ended November 30, 2011:	
Less: Depreciation/amortization	2,806
Net book value at November 30, 2011	346,689
Valuation surplus as of November 30, 2011	203,139
Valuation as of November 30, 2011 *(Note)*	549,828

Note: Our property interests as indicated are comprised of the properties valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited and contained in Appendix IV to this prospectus.

RECENT ACCOUNTING PRONOUNCEMENTS

We have consistently applied HKFRS, which are effective for accounting periods beginning on January 1, 2010, throughout the Track Record Period. Please refer to footnote 2 in the Accountants' Report set out in Appendix I to this prospectus.

PROFIT ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2011

On the bases set out in Appendix III to this prospectus, and in the absence of unforeseen circumstances, we estimate that our unaudited consolidated net profit attributable to owners of the Company and the unaudited pro forma estimated earnings per Share as follows:

Estimated consolidated profit attributable to owners of the Company(1)	not less than RMB95.0 million (equivalent to approximately HK$116.5 million)
Unaudited pro forma estimated earnings per share(2)(3)	not less than RMB0.10 (equivalent to approximately HK$0.12)

Notes:

(1) The bases on which the above profit estimate for the year ended December 31, 2011 has been prepared are summarized in Appendix III to this prospectus.

(2) The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated consolidated profit attributable to owners of the Company for the year ended December 31, 2011, assuming that our Company had been listed since January 1, 2011 and a total of 1,000,000,000 Shares to be in issue immediately upon completion of the Global Offering were issued and outstanding during the entire period. The calculation takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any shares which may be issued upon exercise of the options granted under the share option scheme, any shares which may be allotted and issued or repurchased by our Company pursuant to a general mandate.

(3) Estimated consolidated profit attributable to owners of our Company for the year ended December 31, 2011 and unaudited pro forma earnings per Share are converted into Hong Kong dollars at the rate of RMB0.81539 to HK$1.00.

(4) The sensitivity of the Group's estimated financial results for the year ended December 31, 2011 with respect to the sensitivity of changes in raw material cost are as follows:

Sensitivity of changes in raw materials costs	**Effect on the Group's estimated financial results for the year ended December 31, 2011 RMB million**
Decrease by 2%	95.8
Decrease by 4%	96.5
Decrease by 6%	97.2
Decrease by 8%	98.0
Decrease by 10%	98.7
Increase by 2%	94.4
Increase by 4%	93.6
Increase by 6%	92.9
Increase by 8%	92.2
Increase by 10%	91.5

NO MATERIAL ADVERSE CHANGE

We confirm that there has been no material adverse change in our financial or trading position since September 30, 2011 (being the date to which our latest financial results were prepared as set forth in Appendix I to this prospectus).

NO SIGNIFICANT INTERRUPTIONS

We confirm that there have been no interruptions in our business that may have had a significant effect on our results of operations and financial position in the last 12 months.

DISCLOSURE REQUIRED UNDER LISTING RULES

We confirm that, as of the Latest Practicable Date, there is not any circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.