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OVERVIEW

We are a leading and fast-growing developer and retailer of children's products in China. Children's products consist of children's apparel, children's household products and children's fast moving consumable goods, according to Frost & Sullivan, an independent market research firm. We ranked first in terms of total revenue in the mid to high end children's product market in China in 2009, according to Frost & Sullivan. Mid to high end children's products represented approximately 22.6%, 22.8% and 23.0% of the total children's product market in China for the years ended December 31, 2007, 2008 and 2009, respectively, and our products accounted for approximately 4.0% of the total children's products in the mid to high end children's product market in China in 2009, according to Frost & Sullivan. We design, source and market children's apparel, footwear, accessories and other children's products under our proprietary brands, Boshiwa, Baby² and Dr. Frog, and our licensed brands, Harry Potter, Prince of Tennis and NBA. We also distribute a wide range of other children's products with well-known brands for Chinese and international manufacturers through our sales channels in China.

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

Based on data provided to us by Frost & Sullivan, our sales channels are more diversified compared with those of our competitors in China. In response to the different consumption levels and habits in different regions of China, we use a combination of sales channels to cover the market, including department store concessions, street shops, Boshiwa 365 stores, flagship stores and online stores. We have department store concessions in 140 cities in 28 provinces of China, including premium commercial locations in most of the provincial capital cities. Our street shops are primarily located near affluent residential neighborhoods where there is strong demand for high-quality children's products. Our Boshiwa 365 stores are located inside large shopping malls and carry products for children from newborn to three years of age. Our flagship stores are approximately 1,500 to 3,000 square meters in floor area and carry products for children from newborn to 14 years of age at one location. We conduct our sales either directly to retail customers through our self-managed retail outlets or on a wholesale basis to authorized third-party retailers and distributors, which are Independent Third Parties. As of June 30, 2010, we had 1,062 department store concessions, 24 street shops, 33 Boshiwa 365 stores and seven flagship stores.

Our strong product design and development capabilities represent one of our core competitive strengths. Our product design and development team gathers information on market trends and customer preferences to design and develop products under our self-owned and licensed brands. We believe that by leveraging our knowledge of market trends and customers' needs, we have been able to transform product concepts into commercially viable and popular products in an efficient and effective manner. This ability not only makes our self-owned brands highly competitive in the children's product market in China, but also helps us to continually attract new licensed brands and further strengthen our cooperation with our existing licensed brands.

We have achieved significant growth in revenue and net profit in recent years. Our revenue increased from RMB211.8 million for the year ended December 31, 2007 to RMB325.6 million for the year ended December 31, 2008 and to RMB630.2 million for the year ended December 31, 2009,

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

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success:

We are a leading developer and retailer of children's products in China and well-positioned to benefit from the fast-growing children's product market

We are a leading and fast-growing developer and retailer of children's products in China. According to Frost & Sullivan, we ranked first in terms of total revenue in 2009 in the mid to high end children's product market.

We operate in a fast-growing and highly fragmented industry. According to the National Bureau of Statistics of China, China had over 250 million children under 14 years of age in 2009, representing the world's second largest children consumer group. According to Frost & Sullivan, the average annual Chinese household expenditure on children's products increased from RMB2,359 in 2005 to RMB4,509 in 2009, representing a CAGR of 17.6%. Frost & Sullivan expects that this expenditure will further grow at a CAGR of 15.1% between 2009 and 2013, and that the mid to high end market of children's products in China will also grow at a CAGR of 18.4% during this period. In addition, given most children in China are the only child in their families due to "one-child" policy and the quality of children's products is receiving increasing public attention in recent years in China, we believe today's parents prefer and are more willing to pay for safe and high-quality children's products.

Driven in part by the favorable socio-economic factors and fast growth in children's product market, we have been able to rapidly grow our revenue, net profit and market share. We have achieved significant growth in revenue and net profit in recent years. We believe that, as an industry leader, we will continue to benefit from and capture opportunities in the fast-growing children's product market in China, and will further strengthen our leading position and capture additional market shares.

Our nationwide sales network and diversified sales platform enable us to serve a broad customer base and meet growing and different customer demand

We have a diversified sales platform with wide geographic coverage, which enables us to integrate a full range of brands and products to cater to the consumption levels and habits of children's product consumers in different regions of China. We conduct our sales either directly to retail customers through our self-managed retail outlets or on a wholesale basis to authorized third-party retailers and distributors. As of June 30, 2010, we had 1,062 department store concessions, 24 street shops, 33 Boshiwa 365 stores and seven flagship stores.

We have department store concessions in 28 provinces of China, including premium commercial locations in most of the provincial capital cities. Our street shops are primarily located

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near affluent residential neighborhoods in major cities where there is strong demand for high-quality children's products. Our Boshiwa 365 stores generally range from approximately 300 to 500 square meters in floor area with around 10,000 SKUs. Our Boshiwa 365 stores carry children's apparel and accessories as well as imported other children's products for children from newborn to three years of age. Offering a wide range of products and situated at premium locations, our Boshiwa 365 stores have attracted a large number of customers and contributed to our financial success in recent years. In the second half of 2009, we opened three flagship stores in Shanghai, Qingdao and Xi'an. Our flagship stores are approximately 1,500 to 3,000 square meters in floor area and our smallest flagship store carries more than 20,000 SKUs selling products for children from newborn to 14 years of age all at one location. We believe that this diversified sales platform with a broad product offering covers a wide age group. We believe that our nationwide sales network and diversified sales platform not only cover a broad customer base across China, but also meet different customers' needs, which enable us to expand into additional markets.

Our diversified product offerings with well-known brands enable us to cater to different customer needs and establish broad market coverage

We have a large brand portfolio consisting of our self-owned brands and licensed brands, which caters to consumption needs of children from newborn to 14 years of age. Each of our major brands has its own specific style and price range to meet the different needs of different age groups and to attract various consumer bases. Our self-owned brands include Boshiwa, Baby² and Dr. Frog. The Boshiwa brand primarily targets middle-class and higher income customers in China and provides children's apparel, footwear and accessories for children from three to 14 years of age. It has been recognized as one of the "Leading Brand of Chinese Apparel Industry" and "Top Ten Children's Apparel Brands." Baby² is our high-end brand, which was established in Japan and targets customers with higher income. It provides a full range of products for babies from newborn to three years of age, including in particular, customized products for babies from newborn to twelve months of age. Our licensed brands, Harry Potter, Prince of Tennis, NBA, Barcelona, Juventus, Manchester United, Bob the Builder and Thomas and Friends, target children customers from four to 14 years of age, five to 14 years of age, newborn to 12 years of age, newborn to 14 years of ages, newborn to 14 years of age, newborn to 14 years of age, three to 14 years of age and three to 14 years of age, respectively, providing children's apparel, footwear, accessories and other children's products that are based on cartoon characters or sports events. These brands are based on popular television and movie characters or sports events that possess a high level of social recognition and wide appeal among Chinese customers. We have also established cooperative relationships with a large number of internationally renowned suppliers of other children's products and distributed their products that are popular in the market, such as Combi, Aprica, Pigeon, Nuk, Wakodo and Pampers. At present, with more than 30,000 types of products, we have achieved extensive coverage of products for children from newborn to 14 years of age. With our large brand and product portfolio, we are able to attract different consumer groups based on various brand styles and price ranges and can also flexibly adjust and combine products in our sales channels according to the different customers' needs. We believe that our advantage in the variety of our brands and products enables us to integrate high-quality children's products from around the world and provide a "one-stop" shopping experience to our customers.

Our strong product design and development capabilities enable us to lead market trends and transform product concepts into commercially viable products

Our design and development team and buyers team are responsible for designing, developing and sourcing products. As of June 30, 2010, our design and development team had over 50 employees,

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who focus on the development of our self-owned brands and licensed brands. We believe that by leveraging our deep knowledge of market trends and customers' needs and our close collaborative relationships with our OEMs and ODMs, we have been able to transform product concepts into commercially viable and popular products in an efficient and effective manner. We have successfully created self-owned brands including Boshiwa, Baby² and Dr. Frog and have attracted international media companies and sports events organizations to cooperate with us and develop licensed brands for the Chinese market. We have designed and developed all the products under our licensed brands such as Harry Potter and Prince of Tennis, which we believe have not only generated significant revenues for us, but also demonstrated and strengthened our ability to identify brands that have market potential, to obtain brand licenses and to successfully build such brands into commercial successes. We believe that this experience should help to facilitate our launch of additional brands in the future.

Our design and development team also includes professional buyers who source products for us. Our buyers are typically experienced in the children's product industry and have a good knowledge and understanding of children's products and the children's product market in China. They identify market trends and design and source products that are best suited for Chinese customers' needs.

Our design team collects market data from both domestic and international markets and analyzes them in detail. In addition, in an average year, we provide our customers with over 2,000 new fashion designs of children's apparel and accessories. We believe that these characteristics not only help our products to gain a strong competitive edge in the children's product market, but also help us to attract new licensed brands and further strengthen our cooperation with our existing licensed brands. Our innovative designs helped to win us the right in China to design and provide children's products for the 2008 Beijing Olympic Games. We believe that our strong capabilities in market research, product design and development complement our diversified brand and product portfolios and diversified sales platform. These capabilities represent our core competitive strengths and will continue to play a major role in our business going forward.

Our integrated business model enables us to achieve maximum value from our business operations

We have an integrated business model, where we participate in key stages of the product life cycle, such as product design and development, brand promotion and management, sales network development and operation, and sales and marketing. We outsource the manufacturing of our products to maximize the returns on our assets. We believe that the synergies among our sales network, product portfolio and our research and development capabilities have contributed significantly to the success of our business. Our diversified sales platform and broad product offerings not only provide us with full coverage of our target markets but also enable us to replicate our success in newly developed markets. Our research and development capabilities provide support for us to broaden our product offerings and expand our sales network.

Our information system also enables us to effectively administer and operate our business. Our E-MAX system allows us to effectively manage our logistics and control inventory by collecting data from various aspects of our business, and our BI system allows us to process and analyze data collected by the E-MAX system. Our BI system also allows us to make timely assessments regarding market trends and facilitates the preparation of our business plan and annual budget. Our information systems have facilitated the integration of our business and the smooth operations of our business.

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Our experienced management and staff have strong execution capabilities and a proven track record of generating growth for us

Our senior management team possesses solid industry knowledge, extensive operational experience and a proven track record of generating rapid growth for us. Our chairman and president, Mr. Zhong Zhengyong, and our executive Director Ms. Chen Liping, have over 20 and 18 years of experience in the children's product industry, respectively. As a result of our senior management team's experience in the children's product industry, we are able to understand trends in the children's product market and successfully transformed from a traditional OEM service provider into a leading developer and retailer of children's products in China. We have also been able to create a "one-stop shop" model that has become what we believe is one of our primary competitive advantages. Our senior management team is responsible for setting the overall strategic guidelines, and our department heads and business teams are responsible for the implementation of the strategies.

As of June 30, 2010, we had opened 1,062 new department store concessions, 24 street shops, 33 Boshiwa 365 stores, and seven flagship stores, with a total area of more than 68,000 square meters. This reflects the close cooperation among our design team, procurement team and logistics team, as well as the strong execution capability of our management team. We believe that our senior management have played and will continue to play an important role in achieving success and maintaining our business growth in the future.

OUR STRATEGY

We intend to strengthen our position as a leading developer and retailer of children's products in China and continue to grow our revenue and profit. To achieve this goal, we plan to pursue the following strategies:

Further expand our sales network to cover additional geographic areas

We intend to leverage our success in establishing our extensive and diversified sales network and further expand our sales platform to cover additional markets. We plan to conduct in-depth market research on the climatic conditions, local customs, income levels and consumer preferences in each of our target geographic areas, and to set up appropriate sales channels and brand and product portfolios based on the consumption and spending habits of different cities and regions. We intend to replicate our diversified sales channels to the target areas to meet the needs of local consumers. In addition, we intend to work closely with local retailers who are experienced in and familiar with our target markets. We intend to work to increase our expansion in those markets by opening new department store concessions, street shops, Boshiwa 365 stores and flagship stores. We intend to closely manage such sales channels to ensure that their standards of product quality, services and retail store layout design are consistent with our own. We believe that this strategy should help enable us to develop new markets, enhance nationwide recognition of our brands and increase our sales, revenue and profit.

Continue to focus on developing Boshiwa 365 stores and flagship stores, as well as innovative sales channels such as cartoon character retail complexes

Our Boshiwa 365 stores and flagship stores have helped to contribute to the growth in our revenue. Our revenue derived from our Boshiwa 365 stores for the years ended December 31, 2007,

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2008 and 2009 and the six months ended June 30, 2010 was approximately RMB9.5 million, RMB36.4 million, RMB68.8 million and RMB99.5 million, respectively, accounting for approximately 4.5%, 11.2%, 10.9% and 16.7% of our total revenue. We opened three flagship stores in Shanghai, Qingdao and Xi'an in November and December 2009. As of December 31, 2009, our revenue derived from our flagship stores was approximately RMB6.2 million, accounting for approximately 1.0% of our total revenue. We opened four flagship stores during the six months ended June 30, 2010. As of June 30, 2010, our revenue derived from our flagship stores was approximately RMB95.5 million, accounting for approximately 16.0% of our total revenue. Our Boshiwa 365 stores and flagship stores carry a wide range of our products, including a wide variety of products under our self-owned brands. In particular, our flagship stores carry a full range of products for children from newborn to 14 years of age, providing a customer-friendly environment and "one-stop" shopping experience to our customers. We believe that this sales channel caters to changes in consumers' consumption habits for children's products and may become an important sales platform for the children's product market. As part of our near-term growth strategy, we intend to focus on further developing our Boshiwa 365 stores and flagship stores. We plan to open 80 to 100 Boshiwa 365 stores and flagship stores in the following three years. We also intend to expand and strengthen our product offerings in our Boshiwa 365 stores and flagship stores. We intend to develop new products under our self-owned brands and licensed brands, source high-quality products of well-known brands under agency and distribution agreements and integrate all of these children's products into the product portfolios for our Boshiwa 365 stores and flagship stores. We believe that the establishment of such Boshiwa 365 stores and flagship stores should help to further enhance our market and brand popularity, and enhance our sales volume and market share at the same time.

In addition, we believe that there is significant market potential for children's products based on popular cartoon characters. We intend to leverage our existing expertise and experience in commercialization of cartoon characters to further integrate cartoon resources from around the world and create "one-stop" retail complexes that sell exclusively children's products based on cartoon characters. The retail complexes will primarily carry toys and apparel for toddlers and older children. We currently plan to open cartoon-themed retail complexes in Shanghai, Zhejiang and Jiangsu by the end of 2011. In addition, we also plan to open new department store concessions that are cartoon-themed in eastern China and northern China.

Continue to promote our brands and to further diversify our product offerings

We aim to integrate additional high-quality brands from around the world into our sales channels. We plan to leverage our strong market research and design and development capabilities to introduce new self-owned brands and licensed brands. In particular, we plan to focus on new brands and products that are based on popular movies, cartoon characters or sports events. We have cooperative relationships with a number of leading domestic and international media companies that possess high-quality cartoon resources. We plan to continue to develop relationships with various football leagues and teams in Europe and intend to seek authorization for the use of their brand names. We may also enter into additional distribution agreements with international children's product providers for new products that are suitable for the children's product market in China.

In terms of product portfolio, we plan to continue to design and develop new products under our existing brands that target the children's product market in China. We will work to refine our product design and development, broaden our product offerings to meet different needs of our customers and continuously increase our market share. Our extensive brand and product portfolios enable us to cater to a wide range of customer bases across our various sales channels and provide us with what we believe is a significant competitive advantage in our business expansion.

Further expand and enhance our market research and design and development capabilities in children's products

We believe that market research and design and development capabilities are important factors in maintaining our core competitive advantages, and that our corporate strategies need to be guided by accurate and timely market information. As a result, we believe that strong market research and design and development capabilities are important to our future development and sustainable growth. We intend to invest more resources to further strengthen our existing design and development capabilities and to establish a leading market research and design and development center for the children's product market in China. We plan to expand our design and development team from the current 55 employees to approximately 100 professionals within three years. We intend to recruit designers and experts who have at least five years of relevant industry experience and good knowledge of children's products. Through timely collection and good analysis of market information that supports our continuously improved product design capabilities, we expect to be able to design and develop new products that are tailored to our consumers' actual needs, reflect our brands' cultures and lead market trends. We also plan to collaborate with industry experts, consulting firms, market research firms, hospitals and industry magazines to conduct detailed and comprehensive research on market trends and consumer preferences. We will utilize the findings to focus on developing our self-owned brands and newly licensed brands and expand our product portfolio under those brands. With the new market research and design and development capabilities, we hope to become a hub for communications on the design and development of international and domestic children's products.

Further enhance our management information systems to support our rapid growth and lower our costs

To ensure effective coordination among various aspects of our business as we expand rapidly, we intend to further enhance our management information systems, improve and integrate related management information system modules to optimize our operations and lower our costs. We plan to upgrade our information systems to a fully integrated ERP system, with seamless interface between our current independent module like E-MAX, BI, Finance. Meanwhile, we would like to further develop our E-MAX and BI systems. We intend to liaise with our information system providers to upgrade and tailor our information systems on a regular basis in accordance with the developments in our business model and operations. We believe this would enable us to record sales details, monitor our SKUs, track our inventories and analyze our customers' consumption habits in a more effective manner, which will in turn help our client communications as well as our daily marketing and promotional activities. We also believe that an improved information system should help to enhance the exchange of information between our headquarters and retail outlets as well as among our retail outlets, strengthen our supply chain management and sales and marketing, support our decision processes in product design and development, and further reduce the time-to-market of our new products. We also plan to utilize our management information systems to improve the efficiency of our logistics and work to lower our costs.

Pursue strategic alliances and acquisitions of brands and sales networks

We intend to achieve business expansion through strategic acquisitions. Specifically, we will consider acquisition of other sales channels to further strengthen our diversified sales platform and to serve different customers' needs in different geographic locations. We will selectively consider acquisitions of Chinese domestic children's product retailers and foreign branded children's product

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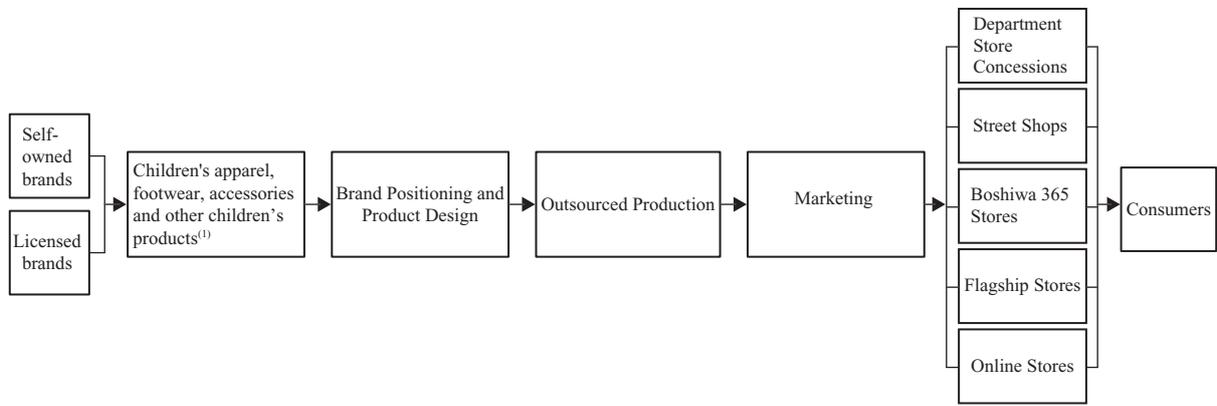
providers that complement our business. We will also consider entering into additional distribution agreements with internationally well-known brands in order to further improve our product variety.

In addition, we intend to selectively enter into strategic partnerships with television stations, cartoon media companies, owners of sports leagues and organizers of sports events in order to license new brands that are based on popular cartoon characters or sports events. We believe that our alliances with such well-known organizations should help to enrich our brand portfolio, introduce cutting-edge fashion elements into our children's products and promote our brands and our corporate image.

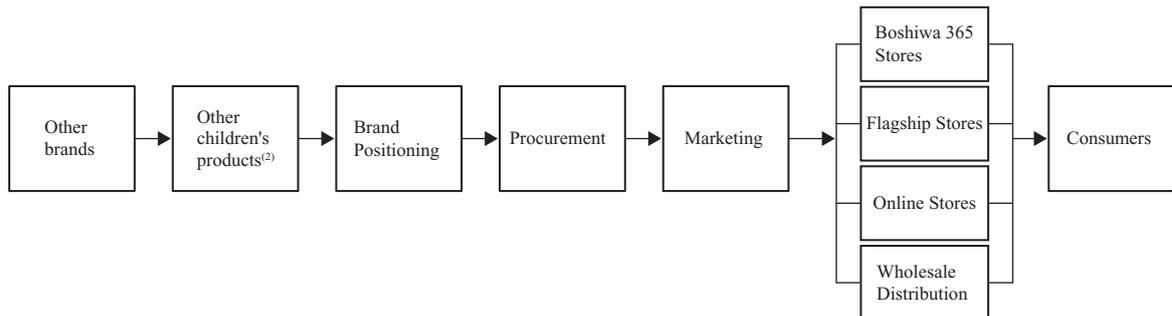
BUSINESS MODEL

The following diagram illustrates our business model:

Children's apparel, footwear, accessories and other children's products



Other children's products



Notes:

1. Other children's products under our self-owned brands and our licensed brands
2. Other children's products under other brands which we distribute through agency or distribution agreements

We primarily design, develop and market children's products, including children's apparel, footwear and accessories, under our proprietary brands, Boshiwa, Baby² and Dr. Frog, and our licensed brands, Harry Potter, Prince of Tennis, NBA, Barcelona, Juventus, Manchester United, Bob the Builder and Thomas and Friends. We also distribute a wide range of other children's products with

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well-known Chinese and international brands through our sales channels in China under agency or distribution agreements.

Our business began as a children's apparel manufacturing enterprise that provided production and processing services for various children's apparel and accessories brands in China and Japan. As we believe that the development and sale of branded apparel, footwear and accessories offer greater business potential and higher profit margins than manufacturing, we began to change our business model in 1997 to develop brands, starting with our self-owned Boshiwa brand. In 2008, we disposed of our manufacturing facilities and began to focus all of our efforts and resources on the design, development and marketing of children's products.

Each of our self-owned and licensed brands has its own dedicated in-house development and design team to develop and design children's apparel, footwear, accessories and other children's products that meet the tastes and preferences of target consumers. We market and sell our products through diversified sales channels, such as department store concessions, street shops, Boshiwa 365 stores, flagship stores, online stores, and wholesale distribution. We conduct our sales either directly to retail customers through our self-managed retail outlets or on a wholesale basis to authorized third-party retailers. We also sell our other children's products on a wholesale basis to distributors across China for sale in baby product stores and supermarkets. As of June 30, 2010, we had 1,062 department store concessions in 407 department stores in 140 cities in 28 provinces of China, 24 street shops, 33 Boshiwa 365 stores and seven flagship stores.

BRANDS AND PRODUCTS

We currently offer a wide range of children's apparel, footwear and accessories under 11 brands, among them Boshiwa, Baby² and Dr. Frog are our self-owned brands and Harry Potter, Prince of Tennis, NBA, Barcelona, Juventus, Manchester United, Bob the Builder and Thomas and Friends are our licensed brands. The Boshiwa brand offers children's apparel, footwear and accessories for children from newborn to 14 years of age in the mid to high end market; the Baby² brand offers children's apparel, footwear, accessories and other children's products for children from newborn to three years of age in the high end market; and the Dr. Frog brand offers children's apparel, footwear and accessories online for children from newborn to ten years of age. Our licensed brands, including Harry Potter, Prince of Tennis, NBA, Barcelona, Juventus, Manchester United, Bob the Builder and Thomas and Friends, are based on popular cartoon characters, movies or sports events that have wide appeal among Chinese customers. We believe that each of these brands has its own unique brand culture and different market positioning to satisfy the needs of different consumer groups.

We are authorized under our agency agreements to distribute other children's products in China for eight international children's product brands, including CHUCHU, Atopita, PIP Baby, Armstrong, Slimwalk, Marusan, Curash and Milk Baby from Japan and Australia. In addition, we have entered into distribution agreements with and acted as sub-distributors of authorized PRC distributors for international brands, such as Combi, Aprica, Pigeon, Nuk, Wakodo and Pampers, to sell a range of children's products through our sales channels in the PRC.

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The following tables set forth our revenue, gross profit and gross profit margin by product mix for the period indicated:

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

Notes:

- (1) Others primarily include sales of sample products provided by our OEM service providers.
- (2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

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

Notes:

- (1) Others primarily include gross profit relating to our sales of sample products.
- (2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

All amounts in the above two tables are based on revenue of Shanghai Boshiwa, our principal operating entity, for the relevant periods. See "Financial Information—Basis of Preparation".

Brands of our children's apparel, footwear and accessories

Revenue derived from our self-owned brands represented 18.4%, 27.2%, 51.3% and 42.1% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. Revenue derived from our licensed brands represented 23.7%, 40.5%, 34.4% and 27.4% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. Revenue derived from other brands under our agency and distribution agreements represented 2.0%, 7.2%, 14.3% and 30.5% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively.

Our self-owned brands

- Boshiwa—The Boshiwa brand was created in 1996. The concepts behind the Boshiwa brand are youth, vitality, wisdom and nobility. We offer a range of mid to high end children’s apparel, footwear and accessories under this brand for children from newborn to 14 years of age. This brand is popular as it offers a wide selection of styles. It has been recognized as a “Famous Brand” and “Well-Known Trademark” in Shanghai for a period over ten years and recognized as one of the “Top Ten Brands in Children’s Apparel” in 2007 and 2010. The Boshiwa brand products are all manufactured by our OEMs in China. The Boshiwa brand’s most commonly used trademark is (Boshiwa) and we have applied for its registration in China and Hong Kong. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection under our Boshiwa brand range from approximately RMB85 to RMB390 and RMB165 to RMB690, respectively. The suggested retail prices of our footwear products and accessories for this brand range from approximately RMB95 to RMB300 and RMB45 to RMB300, respectively.



- Baby²—The Baby² brand was registered in Japan in 2009. We have applied for registration of the Baby² brand in China and Hong Kong. This brand offers children’s apparel, footwear, accessories and other children’s products for children from newborn to three years of age, targeting customers in the mid to high end market. The concepts behind this brand are beauty, innocence and the love of nature. The products under this brand are designed with safe and comfortable textiles. The Japanese-style baby products for bath, care and cleaning offer comfort and safety for babies and their families. The apparel, footwear and accessories under the Baby² brand are designed and developed by our in-house designers and manufactured by our OEMs in China. Other personal care products, including baby moisturizing shower gel, baby milk moisturizer, baby lotion, mild baby soap and baby shampoo, are produced by professional baby product and cosmetic manufacturers in Japan. We have also obtained the filing certificates from SFDA for these Baby²-branded products. Please also refer to “Business—Procurement of Other Children’s Products.” We plan to further develop the product line of the Baby² brand. The Baby² brand’s trademark is (Baby²) and we have applied for its registration in China and Hong Kong. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection under our Baby² brand range from approximately RMB65 to RMB290 and RMB125 to RMB590, respectively. The suggested retail prices of our accessories and other children’s products for this brand range from approximately RMB25 to RMB400 and RMB15 to RMB330, respectively.

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- Dr. Frog—The Dr. Frog brand was registered in Japan and Hong Kong in 2005. This brand is our main brand positioned for online sales, providing mid to high end children's apparel, footwear and accessories for children from newborn to ten years of age. The Dr. Frog brand products are designed and developed by our designers and manufactured by our OEMs in China. The Dr. Frog brand's trademark is () and we have applied for the registration of this trademark in black-and-white form in China. We aim to further strengthen this brand's market presence by increasing our resources to develop a variety of products, especially gift set products, to increase sales under this brand. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection under our Dr. Frog brand range from approximately RMB45 to RMB190 and RMB95 to RMB390, respectively. The suggested retail prices of our footwear products and accessories for this brand range from approximately RMB65 to RMB130 and RMB25 to RMB200, respectively.



Our licensed brands

- Harry Potter—The Harry Potter brand was licensed to us in 2005. Based on a popular movie series “Harry Potter” from Warner Bros. Entertainment Inc., the Harry Potter brand targets the mid to high end market of children's apparel and accessories for children from four to 14 years old. Characterized by its British aristocracy style, the brand features a mysterious and bold theme. Pursuant to our license agreements, Warner Bros. Consumer Products Inc. has granted us a non-exclusive right to develop, manufacture and sell a range of children's apparel and accessories under the Harry Potter brand in the PRC, excluding Guangdong Province. Our licensor of the Harry Potter brand provides certain guidelines to us on a regular basis and reviews our designs. We are required to pay royalty fees to our licensor. The royalty fees for our products sold in both self-managed and authorized third-party retail outlets are calculated as a certain percentage of the wholesale prices of our products purchased by authorized third-party retailers under the Harry Potter brand. In addition, we were able to obtain further discount during the Track Record Period after negotiation with our licensor of the Harry Potter brand. The suggested retail prices of our apparel products for the spring and summer collection

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and the autumn and winter collection under our Harry Potter brand range from approximately RMB128 to RMB428 and RMB198 to RMB788, respectively. The suggested retail prices of our accessories for this brand range from approximately RMB68 to RMB298.



- Prince of Tennis—The Prince of Tennis brand was licensed to us in 2006. Derived from a Japanese cartoon series, the Prince of Tennis brand offers a range of mid to high end cartoon character-based products of children's apparel and accessories, targeting children from five to 14 years old. The theme of the Prince of Tennis brand is a combination of sports, fashion, campus life and competitiveness. Pursuant to our license agreement, SMG has granted us an exclusive right to design, manufacture and sell a range of children's apparel, footwear and accessories and a non-exclusive right to design, manufacture and sell a range of other products under the Prince of Tennis brand in the PRC from August 2006 to August 2011. The licensor of the Prince of Tennis brand provides certain guidelines to us and reviews our designs on a regular basis. We are required to pay royalty fees to our licensor. The royalty fees for our products sold in both self-managed and authorized third-party retail outlets are calculated as a certain percentage of the wholesale prices of our products purchased by authorized third-party retailers under the Prince of Tennis brand. In addition, we were able to obtain further discount during the Track Record Period after negotiations with the licensor of the Prince of Tennis brand. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection under our Prince of Tennis brand range from approximately RMB160 to RMB460 and RMB190 to RMB890, respectively. The suggested retail prices of our accessories for this brand range from approximately RMB65 to RMB300.



- NBA—Pursuant to the NBA License Arrangement, NBA Sports and Culture Development (Beijing) Co., Ltd. has granted us the right to sell a range of licensed products including children's apparel, footwear, accessories and other products under the NBA brand in the PRC, for a term of three years from December 2009 to September 2012. We are required to purchase the licensed products from NBA Sporting Goods Commercial and Trading (Shanghai) Co., Ltd. These licensed products are developed and designed by us and then manufactured by OEMs

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recommended by us to NBA Sporting Good Commercial and Trading (Shanghai) Co., Ltd. We are required to purchase a minimum quantity of licensed products for each of the years during the NBA License Arrangement from our licensor. The royalty fees are calculated as a certain percentage of our minimum purchase amount from our licensor. In addition, we were able to obtain further discount during the Track Record Period after negotiation with our licensor of the NBA brand. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection of NBA branded products range from approximately RMB180 to RMB500 and RMB190 to RMB900, respectively. The suggested retail prices of the footwear products and accessories for this brand range from approximately RMB395 to RMB590 and RMB60 to RMB300, respectively. The suggested retail prices of other derivative products for this brand range from approximately RMB25 to RMB300.

- **Barcelona**—The Barcelona brand was based on the Football Club Barcelona and was licensed to us in 2010. Pursuant to our license agreement, PPW Sports and Entertainment (Hong Kong) Limited has granted us a non-exclusive right to design, manufacture and sell a range of high-end licensed products including children's apparel, footwear and accessories for children from newborn to 14 years old in the PRC, Hong Kong, Macau and Taiwan from May 2010 to July 2013. Our licensor of the Barcelona brand provides certain guidelines for our design and brand marketing strategy on a regular basis. We are required to pay royalty fees to our licensor. The royalty fees for our products sold in both self-managed and authorized third-party retail outlets are calculated as a certain percentage of the wholesale prices of our products purchased by authorized third-party retailers under the Barcelona brand. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection under our Barcelona brand range from approximately RMB118 to RMB428 and RMB188 to RMB798. The suggested retail prices of our footwear products and accessories for this brand range from approximately RMB98 to RMB300 and RMB48 to RMB300, respectively.
- **Juventus**—The Juventus brand was based on the Football Club Juventus and was licensed to us in 2010. Pursuant to our license agreement, PPW Sports and Entertainment (Hong Kong) Limited has granted us a non-exclusive right to design, manufacture and sell a range of high-end licensed products including children's apparel, footwear and accessories for children from newborn to 14 years old in the PRC, Hong Kong, Macau and Taiwan from May 2010 to July 2013. Our licensor of the Juventus brand provides certain guidelines for our design and brand marketing strategy on a regular basis. We are required to pay royalty fees to our licensor. The royalty fees for our products sold in both self-managed and authorized third-party retail outlets are calculated as a certain percentage of the wholesale prices of our products purchased by authorized third-party retailers under the Juventus brand. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection under our Juventus brand range from approximately RMB98 to RMB418 and RMB168 to RMB698. The suggested retail prices of our footwear products and accessories for this brand range from approximately RMB98 to RMB300 and RMB48 to RMB300, respectively.
- **Manchester United**—The Manchester United brand was based on the Football Club Manchester United and was licensed to us in 2010. Pursuant to our license agreement, PPW Sports and Entertainment (Hong Kong) Limited has granted us a non-exclusive right to design, manufacture and sell a range of high end licensed products including children's apparel, footwear and accessories for children from newborn to 14 years old in the PRC, Hong Kong, Macau and Taiwan from May 2010 to July 2013. Our licensor of the Manchester United brand provides certain guidelines for our design and brand marketing strategy on a regular basis. We are required to pay royalty fees to our licensor. The royalty fees for our products sold in both self-managed and authorized third-party retail outlets are calculated as a certain percentage of

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the wholesale prices of our products purchased by authorized third-party retailers under the Manchester United brand. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection under our Manchester United brand range from approximately RMB128 to RMB438 and RMB198 to RMB728. The suggested retail prices of our footwear products and accessories for this brand range from approximately RMB98 to RMB300 and RMB48 to RMB300, respectively.

- **Bob the Builder**—The Bob the Builder brand was licensed to us in 2010. Derived from a British children’s television series, we offer under this brand a range of mid to high end cartoon character products of children’s apparel, footwear and accessories for children from three to 14 years old. The concepts behind the Bob the Builder brand are friendship and cooperation. Pursuant to our license agreement, Hit Entertainment Limited has granted us a non-exclusive right to design, manufacture and sell a range of licensed products in the PRC from July 2010 to August 2013. Our licensor of the Bob the Builder brand provides certain guidelines to us and reviews our designs and brand marketing plan on a regular basis. We are required to pay royalty fees to our licensor. The royalty fees for our products sold in both self-managed and authorized third-party retail outlets are calculated as a certain percentage of the wholesale prices of our products purchased by authorized third-party retailers under the Bob the Builder brand. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection under our Bob the Builder brand range from approximately RMB98 to RMB398 and RMB198 to RMB758. The suggested retail prices of our footwear products and accessories for this brand range from approximately RMB98 to RMB300 and RMB48 to RMB300, respectively.
- **Thomas and Friends**—The Thomas and Friends brand was licensed to us in 2010. Derived from a British children’s television series, we offer under this brand a range of mid to high end animated character products of children’s apparel and accessories for children from three to 14 years old. The concept behind the Thomas and Friends brand is friendship. Pursuant to our license agreement, Gullane (Thomas) Limited has granted us a non-exclusive right to design, manufacture and sell a range of licensed products in the PRC from July 2010 to August 2013. Our licensor of the Thomas and Friends brand provides certain guidelines to us on a regular basis and reviews our designs and brand marketing plan. We are required to pay royalty fees to our licensor. The royalty fees for our products sold in both self-managed and authorized third-party retail outlets are calculated as a certain percentage of the wholesale prices of our products purchased by authorized third-party retailers under the Thomas and Friends brand. The suggested retail prices of our apparel products for the spring and summer collection and the autumn and winter collection under our Thomas and Friends brand range from approximately RMB118 to RMB438 and RMB198 to RMB788. The suggested retail prices of our accessories for this brand range from approximately RMB48 to RMB300.

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Set out below is a summary of licensing terms of our license agreements and arrangements for our licensed brands of Harry Potter, Prince of Tennis, NBA, Barcelona, Juventus, Manchester United, Bob the Builder and Thomas and Friends:

Harry Potter License Agreements

<u>Date</u>	<u>Overview of Licensing Rights Granted</u>
September 22, 2005	We first entered into an agreement with Warner Bros. Consumer Products Inc. pursuant to which we were granted a non-exclusive right to develop, manufacture and sell a range of licensed children's apparel and accessories for children from four to 14 years of age based on all six books of Harry Potter in the PRC. The agreement expired on February 29, 2008.
August 28, 2006	We further entered into an agreement with Warner Bros. Consumer Products Inc. pursuant to which we were granted a non-exclusive right to develop, manufacture and sell a wider range of licensed children's apparel and accessories for children from six to 14 years of age based on the two movies of Harry Potter in the PRC, excluding Guangdong Province. The agreement expired on December 31, 2008.
September 17, 2009 (Effective from January 1, 2009)	We entered into an agreement with Warner Bros. Consumer Products Inc. pursuant to which we have been granted a non-exclusive right to develop, manufacture and sell a wider range of licensed children's apparel and accessories for children from four to 14 years of age based on all seven books and movies of Harry Potter in department stores, apparel and fashion specialty stores, supermarkets and hypermarkets in the PRC, excluding Guangdong province. We are required to use the name and trademark of the Harry Potter brand for all Harry Potter packing, advertising and promotional materials. Such materials are limited to the character(s) and /or other element(s) depicted in the Style Guide(s) provided and/or any artwork that has been approved by Licensor in accordance with this agreement. The licensor is entitled to terminate the agreement for our non-compliance of the terms set forth in the agreement, such as engaging in any unauthorized use of the intellectual properties of the licensor. The agreement will expire on December 31, 2011.

Prince of Tennis License Agreement

<u>Date</u>	<u>Overview of Licensing Rights Granted</u>
August 16, 2006	We entered into an agreement with SMG pursuant to which we have been granted an exclusive right to design, manufacture and sell a range of children's apparel, footwear and accessories, and a non-exclusive right to design, manufacture and sell a range of other children's products, based on the first 52 episodes of the Japanese cartoon series, "Prince of Tennis" in the PRC. We have been granted an exclusive right to use the name and trademark of the Prince of Tennis brand for a range of children's apparel, footwear and accessories, and a non-exclusive right to use the brand name and trademark of the Prince of Tennis brand for other children's products. The licensor is entitled to terminate the agreement for our non-compliance with sales policy if we do not rectify the wrongdoings within seven days upon receipt of written warning from our licensor. The agreement will expire on August 9, 2011. We have the right of first refusal to renew this agreement under the same conditions and through consultation between the parties upon expiration of the agreement.

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NBA License Arrangements

<u>Date</u>	<u>Overview of Licensing Rights Granted</u>
December 28, 2009	We entered into a distribution agreement with NBA Sports and Culture Development (Beijing) Co., Ltd. pursuant to which we have been granted either exclusive or non-exclusive right to purchase a range of licensed products of apparel, footwear, accessories and other derivative products for children from newborn to 12 years of age from NBA Sporting Goods Commercial and Trading (Shanghai) Co., Ltd., and sell these licensed products in the PRC. We are permitted to use the name and trademark of the NBA brand for the sale of the licensed products only. We are required to purchase a minimum quantity of licensed products for each of the contract years. The licensor is entitled to early termination of the agreement when we (i) within three consecutive months from the execution of the agreement make no purchase of licensed products and engage in bona-fide distribution and sales of licensed products to permitted retailers; (ii) are unable to pay our financial liabilities when due; (iii) fail to make timely delivery of licensed products to authorized third-party retailers; (iv) breach of the terms set forth in the agreement and fail to rectify the wrongdoing within five days upon receipt of written notice from our licensor or (v) breach or one of our affiliates breaches a license agreement with NBA Sports and Culture Development (Beijing) Co., Ltd. and such license agreement is subsequently terminated. The agreement will expire on September 30, 2012. Either party may give notice within the period from August 1, 2012 to August 31, 2012 that it wishes to extend such agreement for another term of five years through 2017, the terms of which would then be negotiated between the parties.
January 22, 2010	A confirmation letter was issued by NBA Sports and Culture Development (Beijing) Co., Ltd. which referred to the distribution agreement between the parties dated December 28, 2009 as a license arrangement pursuant to which we have been granted the right to purchase a range of licensed products of apparel, footwear, accessories and other products under the NBA brand from NBA Sporting Goods Commercial and Trading (Shanghai) Co., Ltd., and sell these licensed products in the PRC through our retail outlets and on our official website only.
April 1, 2010	We entered into an amendment with NBA Sports and Culture Development (Beijing) Co., Ltd. pursuant to which the size of NBA-themed corners in our retail outlets or department store concessions shall be no more than 100 square meters. We also shall not display unapproved NBA-related retail materials or sell unauthorized NBA-branded or non-NBA-branded products without NBA Sports and Culture Development (Beijing) Co., Ltd.'s prior written approval.

Barcelona License Agreement

<u>Date</u>	<u>Overview of Licensing Rights Granted</u>
August 17, 2010 (Effective from May 12, 2010)	We entered into an agreement with PPW Sports and Entertainment (Hong Kong) Limited pursuant to which we have been granted a non-exclusive right to design, manufacture and sell a range of licensed products of apparel, footwear and accessories for children from newborn to 14 years of age in the PRC, Hong Kong, Macau and Taiwan. We are required to use the name and trademark of the Barcelona brand for design, manufacturing and sale of the licensed products only. We are allowed to sell licensed products to bona fide outlets for resale to the public or directly to the public during the normal course of trading including department stores, super markets, specialty sores and our own retail outlets. The licensor is entitled to terminate the agreement for our non-compliance of the terms set forth in the agreement, such as engaging in any unauthorized use of the intellectual properties of the licensor or consistently being late in paying the royalty fees. The agreement will expire on July 31, 2013.

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Juventus License Agreement

<u>Date</u>	<u>Overview of Licensing Rights Granted</u>
August 17, 2010 (Effective from May 12, 2010)	We entered into an agreement with PPW Sports and Entertainment (Hong Kong) Limited pursuant to which we have been granted a non-exclusive right to design, manufacture and sell a range of licensed products of apparel, footwear and accessories for children from newborn to 14 years of age in the PRC, Hong Kong, Macau and Taiwan. We are required to use the name and trademark of the Juventus brand for design, manufacturing and sale of the licensed products only. We are allowed to sell licensed products to bona fide outlets for resale to the public or directly to the public during the normal course of trading including department stores, super markets, specialty sores and our own retail outlets. The licensor is entitled to terminate the agreement for our non-compliance of the terms set forth in the agreement, such as engaging in any unauthorized use of the intellectual properties of the licensor or consistently being late in paying the royalty fees. The agreement will expire on July 31, 2013.

Manchester United License Agreement

<u>Date</u>	<u>Overview of Licensing Rights Granted</u>
August 17, 2010 (Effective from May 12, 2010)	We entered into an agreement with PPW Sports and Entertainment (Hong Kong) Limited pursuant to which we have been granted a non-exclusive right to design, manufacture and sell a range of licensed products of apparel, footwear and accessories for children from newborn to 14 years of age in the PRC, Hong Kong, Macau and Taiwan. We are required to use the name and trademark of the Manchester United brand for design, manufacturing and sale of the licensed products only. We are allowed to sell licensed products to bona fide outlets for resale to the public or directly to the public during the normal course of trading including department stores, supermarkets, specialty stores and our own retail outlets. The licensor is entitled to terminate the agreement for our non-compliance of the terms set forth in the agreement, such as engaging in any unauthorized use of the intellectual properties of the licensors or consistently being late in paying the royalty fees. The agreement will expire on July 31, 2013.

Bob the Builder License Agreement

<u>Date</u>	<u>Overview of Licensing Rights Granted</u>
August 24, 2010 (Effective from July 1, 2010)	We entered into an agreement with Hit Entertainment Limited pursuant to which we have been granted a non-exclusive right to design, manufacture and sell a range of licensed products of apparel, footwear and accessories for children from three to 14 years of age in the PRC. We are required to use the name and trademark of the Bob the Builder brand for design, manufacturing and sale of the licensed products only. We are required to sell licensed products to bona fide outlets for resale to the public or directly to the public during the normal course of trading under the sales channels of department stores, supermarkets, specialty stores and our own retail outlets. Our design, including rough sketches and layout concepts, finished artwork, final prototypes, pre-production samples and finished products shall be approved by the licensor in accordance with this agreement. The licensor is entitled to terminate the agreement for our non-compliance of the terms set forth in the agreement, such as engaging in any unauthorized use of the intellectual properties of the licensors, non-compliance of quality standard or failing to sell reasonable quantities of licensed products. The agreement will expire on August 31, 2013.

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Thomas and Friends License Agreement

Date	Overview of Licensing Rights Granted
August 24, 2010 (Effective from July 1, 2010)	We entered into an agreement with Gullane (Thomas) Limited pursuant to which we have been granted a non-exclusive right to design, manufacture and sell a range of licensed products of apparel and accessories for children from three to 14 years of age in the PRC. We are required to use the name and trademark of the Thomas and Friends brand for design, manufacturing and sale of the licensed products only. We are required to sell licensed products to bona fide outlets for resale to the public or directly to the public during the normal course of trading under the sales channels of department stores, supermarkets, specialty stores and our own retail outlets. Our design, including rough sketches and layout concepts, finished artwork, our final prototypes, pre-production samples and finished products shall be approved by the licensor in accordance with this agreement. The licensor is entitled to terminate the agreement for our non-compliance of the terms set forth in the agreement, such as engaging in any unauthorized use of the intellectual properties of the licensors, non-compliance of quality standard or failing to sell reasonable quantities of licensed products. The agreement will expire on August 31, 2013.

Our license agreements with Harry Potter and Prince of Tennis will expire on December 31, 2011 and August 9, 2011, respectively. We and our licensors, Warner Bros. Consumer Products and SMG intend to discuss renewal of these license agreements prior to their expiration. We believe that we will not encounter major difficulties in renewing our license agreements as we have established good and stable relationships with our licensors and both of them are satisfied with our sales performance under these two brands in the PRC market. Our revenue derived from these two brands was RMB50.2 million, RMB131.7 million, RMB216.8 million and RMB153.0 million, which accounted for approximately 23.7%, 40.5%, 34.4% and 25.7% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. If we are unable to renew these licenses, our business, financial condition and results of operations would be adversely affected. See “Risk Factors—We rely on our licensed brands for a significant portion of our revenue. If we are unable to renew our licenses upon expiration or if license royalties increase substantially, our business, financial condition and results of operations would be materially and adversely affected.” As we plan to continuously integrate high-quality brands from around the world into our product portfolio, we believe that the percentages of our total revenue these two brands represent should gradually decrease.

Our other children’s products under agency or distribution agreements

We have entered into a number of agency or distribution agreements to offer other children’s products with well-known brands from Japan, Australia, China and other regions. We are authorized to market, distribute and sell a range of products in the PRC for different periods of terms.

Children’s household products

Baby bedding

We sell a range of baby bedding such as sleeping bags, pillows, quilts, rugs, curtains and cushions under a variety of Chinese brands. The suggested retail prices of our baby bedding products range from approximately RMB98 to RMB3,000.

Baby strollers

We sell a variety of baby strollers with seatbelts attached, strong handles and quality brakes imported from Japan, the US and the UK, including the brands of Combi, Aprica, Graw and Bratix. The suggested retail prices of our baby strollers range from approximately RMB249 to RMB4,780.

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Baby toys

We sell a range of baby toys such as puzzles, writing board and building blocks under various international brands. The suggested retail prices of our baby toys range from approximately RMB5 to RMB1,300.

Baby outdoor products

We sell a range of baby outdoor products such as baby carriers, hangers, UV sun blocks, Mommy bags and rain ponchos imported from Japan, including the brands of Combi and Aprica. The suggested retail prices of our baby outdoor products range from approximately RMB22 to RMB6,280.

Children's fast moving consumer goods

Baby feeding products and other related products

We sell a wide variety of PPSU and glass feeding bottles, latex and silica pacifiers and other sterilizers imported from Japan, including products under the CHUCHU brand. The suggested retail prices of our baby feeding products and other related products range from approximately RMB2 to RMB475.

Baby hygiene products

We sell a range of baby hygiene products such as baby wet wipes, sterilized cleaning cottons, cotton swabs, finger-cot toothbrush, baby toothpaste and baby nail clippers imported from Japan and Australia, including the brands of CHUCHU, Curash and Sanyo. The suggested retail prices of our baby hygiene products range from approximately RMB1.5 to RMB186.

Baby detergent products

We sell a variety of baby detergent products such as laundry detergent, softeners, bleach and liquid detergent for milk bottles, fruit and vegetables imported from Japan, including the brands of Atopita, CHUCHU and PIP Baby. The suggested retail prices of our baby detergent products range from approximately RMB13 to RMB102.

Personal care products

We sell a range of personal care products such as baby shampoo, bathing soap, massage oils, baby lotion, lip balm and baby powder imported from Japan and Australia, including the brands of CHUCHU, Curash and Atopita. The suggested retail prices of our baby personal care products range from approximately RMB4.5 to RMB199.

Tableware and food processing products

We sell a variety of baby tableware and food processing products such as food blenders, fork and spoon sets, food containers and training cups imported from Japan, including the brands of CHUCHU and PIP Baby. The suggested retail prices of our baby tableware and food processing products range from approximately RMB5.5 to RMB268.

Baby bath products

We sell a range of bathroom products such as baby bathtubs, four-in-one toilet seats, bath racks, shower caps, bathing gloves and bathing cottons imported from Japan and Australia, including

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the brands of CHUCHU, PIP Baby and Armstrong. The suggested retail prices of our baby bath products range from approximately RMB4.5 to RMB200.

Maternity products

We sell a range of maternal care products such as breast pumps, breast pads, maternity napkins, stretch mark massage cream and maternal pressure stockings imported from Japan, including the brands of CHUCHU, PIP Baby, Slimwalk and Marusan. The suggested retail prices of our maternity products range approximately from RMB5 to RMB598.

Children's food and beverage products

We sell a range of children's food and beverage products such as infant formula, minced foods, finger foods, biscuits, candies and fruit juice under various Chinese brands and international brands, including PIP Baby and Pigeon. We comply with all laws and regulations of the PRC, such as the Food Safety Law of the PRC (《食品安全法》), the Measures for the Supervision and Administration of Food Safety in the Circulation Links (《流通環節食品安全監督管理辦法》) and the Measures for the Administration of Food Circulation Permit (《食品流通許可證管理辦法》), for engaging in retailing and wholesaling of all our food products. We have also obtained the relevant permits including the Food Circulation Permits (“食品流通許可證”). The suggested retail prices of our children's food and beverage products range from approximately RMB0.5 to RMB560.

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Brand recognition

Our brands and products have been recognized in the PRC since 1996, as evidenced by the following awards and certificates:

Period	Award/Certificate	Awarding body
1996 — 1997, 1999 — 2002, 2004 — 2005, 2007 — 2009	Boshiwa branded children's apparel was accredited as 上海名牌產品 (Shanghai Famous Brand Products)	上海市名牌產品推薦委員會 (Shanghai Famous Brand Recommendation Committee)
1999, 2003 — 2005, 2006 — 2008, 2009 — 2011	Boshiwa trademark was accredited as 上海市著名商標 (Shanghai Well-known Trademark)	上海市工商行政管理局 (Shanghai Administration for Industry and Commerce)
2001 — 2006	Shanghai Boshiwa was accredited as 上海市文明單位 (Shanghai Civilized Organization)	上海市人民政府 (Shanghai Municipal People's Government)
2004	Shanghai Boshiwa was accredited as 2003 年上海服裝行業銷售強勢企業 (Powerful Sales Enterprise of Shanghai Apparel Industry of the Year 2003)	上海市服裝行業協會 (Shanghai Apparel Industry Association)
2005	Boshiwa branded children's apparel was accredited as 時尚品牌推廣獎 (Fashion Promotion Award)	上海國際時尚品牌博覽組 (Shanghai International Fashion Brand Expo Organization Committee)
2006	Shanghai Boshiwa was accredited as 中國服裝行業領袖品牌 (Leading Brand of Chinese Apparel Industry)	領袖上海組委會; 第四屆上海國際時尚品牌博覽會暨領袖品牌創新特色展組委員會; 上海服裝行業協會; 中國社會調查所 (Leader Shanghai Organization Committees; Leading Brand Innovation Exhibition Group Organization Committee of the 4th Shanghai International Fashion Brand Expo Organization Committee; Shanghai Apparel Industry Association; and Social Survey Institute of China)
2006 — 2009	Shanghai Boshiwa obtained the ISO14001:2004 and ISO9001:2000 qualification for its children's apparel, hats design, production and related services	中國質量認證中心 (China Quality Certification Center)
2007	Boshiwa was the licensed provider of children's apparel for the 2008 Beijing Olympics	北京奧運組委會 (Beijing Olympics Committee)
2007 — 2012	Boshiwa branded products were accredited as 中國十大童裝品牌 (Top Ten Brands in Children's Apparel)	中國服裝協會 (China National Apparel Association)

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SALES AND DISTRIBUTION

We sell our products through department store concessions, street shops, Boshiwa 365 stores, flagship stores, wholesale distribution and online stores. As of June 30, 2010, we had 1,062 department store concessions in 407 department stores in 140 cities in 28 provinces of China, 24 street shops, 33 Boshiwa 365 stores and seven flagship stores. We conduct our sales either directly to retail customers through our self-managed retail outlets or on a wholesale basis to authorized third-party retailers, which are Independent Third Parties. We also sell some of our other children's products on a wholesale basis to distributors across China for sale in baby product stores and supermarkets.

Our retail network covers 28 provinces and 140 cities in China. We coordinate our sales efforts from our sales headquarters in Shanghai. In order to facilitate sales efficiency and optimize decision-making, we manage our nationwide retail network across seven sales regions which report individually to our headquarters. The seven sales regions consist of eastern China (which includes Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi, Shandong and Fujian); northern China (which includes Beijing, Inner Mongolia, Hebei, Tianjin and Shanxi); northwestern China (which includes Shaanxi, Gansu, Qinghai and Xinjiang); southwestern China (which includes Sichuan, Chongqing, Yunnan and Guizhou); southern China (which includes Guangxi and Hainan); northeastern China (which includes Heilongjiang, Jilin and Liaoning); central China (which includes Hubei, Hunan and Henan). With our experience in building a diversified sales platform with broad coverage in our existing sales regions, we intend to expand our sales platform to cover additional markets in Hong Kong, southwestern China and northwestern China.

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The following table sets forth our revenue derived from self-managed retail outlets, authorized third-party retail outlets, wholesale distribution, online sales, others and discontinued operations for the period indicated:

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

Notes:

- (1) Others primarily include sales of sample products provided by our OEM service providers.
(2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

The following table sets forth the revenue and the number of retail outlets attributable to authorized third-party retailers for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2007	2008	2009	2010
Revenue (RMB'000)	49,797	99,760	322,316	317,925
Number of retail outlets	126	250	478	594

Amounts in the above two tables are based on revenue of Shanghai Boshiwa, our principal operating entity, for the relevant periods. See “Financial Information—Basis of Preparation.”

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Our sales channels

The following table sets forth the number of outlets opened and closed for the periods indicated:

	Year ended December 31,									Six months ended June 30,					
	2006			2007			2008			2009			2010		
	Total	Opened	Closed	Total	Opened	Closed	Total	Opened	Closed	Total	Opened	Closed	Total		
Department store															
concessions	101	145	5	241	343	8	576	295	12	859	203	0	1,062		
Self-managed retail outlets	49	66	0	115	211	0	326	64	0	390	111	0	501		
Authorized third-party retail outlets	52	79	5	126	132	8	250	231	12	469	92	0	561		
Street shops	-	-	-	-	-	-	-	12	0	12	12	0	24		
Self-managed retail outlets	-	-	-	-	-	-	-	5	0	5	3	0	8		
Authorized third-party retail outlets	-	-	-	-	-	-	-	7	0	7	9	0	16		
Boshiwa 365 stores	2	2	0	4	5	0	9	7	0	16	17	0	33		
Self-managed retail outlets	2	2	0	4	5	0	9	7	0	16	5	0	21		
Authorized third-party retail outlets	-	-	-	-	-	-	-	-	-	-	12	0	12		
Flagship stores	-	-	-	-	-	-	-	3	0	3	4	0	7		
Self-managed retail outlets	-	-	-	-	-	-	-	1	0	1	1	0	2		
Authorized third-party retail outlets	-	-	-	-	-	-	-	2	0	2	3	0	5		

The following table sets forth our revenue by sales channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,	
	2007		2008		2009		2010	
	Revenue (RMB' 000)	% of revenue (%)	Revenue (RMB' 000)	% of revenue (%)	Revenue (RMB' 000)	% of revenue (%)	Revenue (RMB' 000)	% of revenue (%)
Department store								
concessions	84,034	39.7	194,763	59.8	474,390	75.3	287,501	48.3
Street shops	-	-	-	-	20,432	3.2	61,964	10.4
Boshiwa 365 stores	9,467	4.5	36,418	11.2	68,826	10.9	99,528	16.7
Flagship stores	-	-	-	-	6,153	1.0	95,450	16.1
Wholesale distribution	-	-	11,763	3.6	49,477	7.9	38,774	6.5
Online sales	-	-	596	0.2	10,880	1.7	11,717	2.0
Others ⁽¹⁾	4	0.0	13	0.0	20	0.0	-	-
Discontinued operations ⁽²⁾	118,269	55.8	82,048	25.2	-	-	-	-
Total	211,774	100.0	325,601	100.0	630,178	100.0	594,934	100.0

Notes:

(1) Others primarily include sales of sample products.

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

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The following table sets forth breakdowns of our revenue by sales channel and by self-managed retail outlets and authorized third-party retail outlets, each for the periods indicated:

	Year ended December 31,									Six months ended June 30,		
	2007			2008			2009			2010		
	(RMB'000)			(RMB'000)			(RMB'000)			(RMB'000)		
	Self-managed	Third-party managed	Total	Self-managed	Third-party managed	Total	Self-managed	Third-party managed	Total	Self-managed	Third-party managed	Total
Department store												
concessions	34,237	49,797	84,034	95,003	99,760	194,763	166,199	308,191	474,390	114,446	173,055	287,501
% of revenue . . .	40.7	59.3	100.0	48.8	51.2	100.0	35.0	65.0	100.0	39.8	60.2	100.0
Street shops	-	-	-	-	-	-	10,297	10,135	20,432	16,298	45,666	61,964
% of revenue . . .	-	-	-	-	-	-	50.4	49.6	100.0	26.3	73.7	100.0
Boshiwa 365												
stores	9,467	-	9,467	36,418	-	36,418	68,826	-	68,826	64,533	34,995	99,528
% of revenue . . .	100.0	-	100.0	100.0	-	100.0	100.0	-	100.0	64.8	35.2	100.0
Flagship stores	-	-	-	-	-	-	2,163	3,990	6,153	31,241	64,209	95,450
% of revenue . . .	-	-	-	-	-	-	35.2	64.8	100.0	32.7	67.3	100.0

The following table sets forth our average sales per store by sales channel in 2009:

	Year ended December 31, 2009		
	Number of stores	Total revenue (RMB'000)	Monthly revenue per store (RMB'000)
Department store concession			
Self-managed retail outlets	390	166,199	35.5
Authorized third-party retail outlets	469	308,191	54.8
Street shops			
Self-managed retail outlets	5	10,297	171.6
Authorized third-party retail outlets	7	10,135	120.7
Boshiwa 365 stores			
Self-managed retail outlets	16	68,826	358.5
Authorized third-party retail outlets	-	-	-
Flagship stores			
Self-managed retail outlets	1	2,163	180.3
Authorized third-party retail outlets	2	3,990	166.3
Others ⁽¹⁾	-	60,377	-
Total	890	630,178	-

Note:

(1) Others primarily include wholesale distribution and online sales.

Amounts in the above three tables are based on revenue of Shanghai Boshiwa, our principal operating entity, for the relevant periods. See “Financial Information—Basis of Preparation.”

Department store concessions

Department store concessions are our most established sales channel. We have department store concessions in 28 provinces and 140 cities in China with the majority located in premium commercial locations in most of the provincial capital cities. Pursuant to our concessionaire agreements with major department stores in the PRC, the department stores allocate to us certain store space for the display and sale of our products. The areas of the concessions range from approximately 30 to 80 square meters. The department store concessions mainly carry our best selected children’s products of apparel, footwear and accessories including the brands of Boshiwa, Baby², Harry Potter, Prince of Tennis and NBA. Each of these

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brands has its own specific brand culture, design style and store image positioning. As of June 30, 2010, we had approximately 1,062 concessions in 407 department stores, accounting for 56.1% of our total business area of retail outlets across the PRC. Among them, we had 365, 147, 215, 289 and 46 concessions for each of Boshiwa, Baby², Harry Potter, Prince of Tennis and NBA, respectively. Sales from our concessions in department stores accounted for approximately 39.7%, 59.8%, 75.3% and 48.3% of our total revenue from our continuing operations for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we paid concession fees of RMB10.5 million, RMB18.2 million, RMB24.4 million and RMB18.2 million.

We enter into concessionaire agreements with major department stores, which generally include the following principal terms:

- *Location and size of the areas for the concession within the department stores*—We are typically authorized to open our concessions under the brands of Boshiwa, Baby², Harry Potter, Prince of Tennis and NBA in the children's product section in the department stores. The size of the areas for our concessions ranges approximately from 30 to 80 square meters for an individual brand.
- *Deposit*—In some cases, we are required to pay deposits to the department stores before entering into the department stores. The amount ranges from approximately RMB3,000 to RMB10,000. The deposit is refundable after a period of time upon termination of the agreement provided that there is no event resulting in deduction of such deposit pursuant to relevant agreement.
- *Concession fees*—The concession fees are typically calculated as a percentage of our monthly sales revenue. The percentage of our sales revenue for our concession fees ranges from approximately 15% to 30%. The basic monthly fees range from approximately RMB10,000 to RMB40,000.
- *Renovation and maintenance*—We are typically required to obtain approval from the department stores for the design and layout of our department store concessions before we commence the renovation. We are responsible for the renovation costs of our department store concessions.
- *Product Quality*—We are typically required to ensure the quality of our products. We are also typically required to ensure that our products do not infringe the intellectual property rights of others. In certain instances, the department stores are entitled to examine the quality of our products.
- *Sharing of promotion costs*—The department stores are generally responsible for the promotional advertisement and decoration of the department stores. We are typically required to actively participate in promotional events that are initiated by the department stores. The sharing percentage of promotion costs is generally decided through consultations between the parties. The promotion cost generally ranges from approximately RMB500 to RMB3,000. We are generally required to obtain written approval from the department stores before we can conduct our own promotional events.
- *Arrangement of profit settlement*—The department stores are required to first collect the payment from and issue tax invoices to retail customers, and we settle our payment with the department stores on a monthly basis. The department stores then arrange for payment within the pre-agreed payment period, which is typically 40 to 60 days.

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- *Duration*—The agreement generally has a term of one year which may be renewed by the parties based on our sales performance.
- *Termination*—The agreements can generally be terminated upon mutual agreement between us and the department stores. In some cases, we may terminate the concession after a specified notice period. In certain instances, the department store is entitled to terminate the concessionaire agreement if we fail to meet certain sales targets or if our products are defective.

Street shops

Our street shops are individual stores which are primarily located near busy commercial areas and residential neighborhoods where consumers' spending power and demand for high-quality children's products are expected to be high. Our street shops range from approximately 150 to 300 square meters in area. They have larger display areas and are free-standing, which allow us more flexibility to carry out promotional activities. The full line of Boshiwa brand products are sold at the street shops, including apparel, footwear and other accessories. We opened our first street shop in April 2009. As of June 30, 2010, we had 24 street shops, of which eight were self-managed and 16 were managed by authorized third-parties. Sales from our street shops accounted for approximately 3.2% and 10.4% of our total revenue from our continuing operations for the year ended December 31, 2009 and the six months ended June 30, 2010, respectively.

Boshiwa 365 stores

Our Boshiwa 365 stores aim to create a one-stop shopping place for our customers as these stores sell children's apparel, footwear and accessories as well as other children's products, such as baby care products and feeding products. Our Boshiwa 365 stores are independent stores in large shopping malls and generally range from approximately 300 to 500 sq.m. in area and carry over 10,000 SKUs. Targeting children and maternal customers, our Boshiwa 365 stores carry apparel and other textile products under the Baby² brand, other children's products under the Baby² brand and other imported brands. Our Boshiwa 365 stores' wide-ranging product portfolio, premium locations and effective market promotion have attracted large customer volumes since their openings and contributed to our financial success. As of June 30, 2010, we had 33 Boshiwa 365 stores, of which 21 were self-managed and 12 were managed by third-parties. Sales from our Boshiwa 365 stores accounted for approximately 4.5%, 11.2%, 10.9% and 16.7% of our total revenue from our continuing operations for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. We plan to expand our retail network in this sales channel in the future.

Flagship stores

Our flagship stores are approximately 1,500 to 3,000 sq.m. in area and carry a full range of products all at one location, including our self-owned brands, licensed brands and other internationally well-known brands under agency and distribution agreements. Our smallest flagship store carries more than 20,000 SKUs, our flagship stores carry 21 product categories, 56 product series and more than 8,000 SKUs of children's apparel, footwear, accessories, baby feeding products, food products, baby care products and baby traveling products under brands such as CHUCHU, Atopita, PIP Baby and Curash for children from newborn to three years of age. Our flagship stores also carry 18 product categories, 40 product series and more than 6,000 SKUs of children's apparel, footwear, toys, food, stationeries based on cartoon characters under brands such as Boshiwa, Harry Potter and Prince of Tennis for children from three to eight years of age. Targeting children from eight to 14 years of age, our flagship stores serve 18 product categories, 40 product series and more than 6,000 SKUs of

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children’s apparel, footwear, accessories, stationeries, toys and sports products based on world sports events and leagues under brands such as NBA. We opened our first flagship store in Shanghai in November 2009. As of June 30, 2010, we had seven flagship stores, of which two were self-managed and five were managed by authorized third-parties. Sales from our flagship stores accounted for approximately 1.0% and 16.1% of our total revenue for the year ended December 31, 2009 and the six months ended June 30, 2010, respectively. We plan to increase the efforts in developing our “one-stop” flagship stores as we believe flagship stores are becoming a popular mode of retail shopping.

Management of Retail Outlets

As of June 30, 2010, we managed our department store concessions, street shops, Boshiwa 365 stores and flagship stores either directly or through authorized third-party retailers. For the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, approximately 48.6%, 57.3%, 46.3% and 47.2% of our retail outlets were managed by us and approximately 51.4%, 42.7%, 53.7% and 52.8% were managed by authorized third-party retailers. For our self-managed retail outlets, we bear all the costs for their operations and we recognize our sales when our products are sold to our retail customers. For authorized third-party retail outlets, we sell our products to authorized third-party retailers on a wholesale basis and they are responsible for their own profit or losses. We recognize our sales to these authorized third-party retailers when our products are delivered and title has been passed to them.

As of June 30, 2010, we leased 14 retail premises for our retail outlets. The following table sets forth details of the lease agreements for our retail outlets with fixed rental and retail outlets with profit sharing arrangements for the periods indicated:

Details of lease agreements			
	Number	Area (m ²)	Expiration year
Retail outlets with fixed rental	2	160 to 670	January 1, 2011 to December 31, 2012
	3	340 to 800	January 1, 2013 to December 31, 2015
	5	300 to 2,880	January 1, 2016 to December 31, 2019
Retail outlets with profit sharing	1	699	September 30, 2010
	3	165 to 630	January 1, 2012 to December 31, 2015

Please also refer to “Appendix IV—Property Valuation” for detailed information.

Wholesale distribution

In addition to our self-managed retail outlets and authorized third-party retail outlets, we also sell products under our proprietary Baby² brand and other brands under agency or distribution agreements, such as CHUCHU, Atopita, Curash, Armstrong, PIP Baby, Milk Baby and Slimwalk, on a wholesale basis to distributors in second-tier and third-tier cities in China for resale in baby product stores and supermarkets. To avoid any potential competition and cannibalization, we have a unified retail pricing policy which requires that the retail prices of our products be the same across all our sales channels. Our distributors are required to comply with our pricing policy. We also conduct regular onsite inspection to ensure our distributors’ adherence to such policy.

For our wholesale distribution, we recognize our sales when our products are delivered and title is passed to our distributors. Sales from our wholesale distribution accounted for approximately 0.0%, 3.6%, 7.9% and 6.5% of our total revenue during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively.

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Online stores

Our online stores mainly offer children's apparel, footwear, accessories under our Dr. Frog brand and other children's products under our Baby² brand. We cooperate with B2B business website www.taobao.com (淘寶網) and sell a small percentage of our products, primarily consumable baby products such as baby formula and diapers, either directly to online customers or to online distributors who then resell them to end users. We recognize our sales when our products are sold to our online customers or online distributors. We also advertise our products online through maternity websites such as <http://sh.iyun.com/> (愛孕網) and www.liba.com (籬笆網). We established our first online flagship store at www.taobao.com (淘寶網) in 2008. As of December 31, 2009, we had 19 online stores at www.taobao.com (淘寶網) for the wholesale and retail sales of our products. As per the agreement between us and the operators of www.taobao.com, we set up online stores at the website to display and sell our products. Sales proceeds from our online stores at www.taobao.com would be transferred from Alipay (a platform providing escrow service for online payment) to us immediately after we have delivered the products to the customer and upon the customer's confirmation of receipt of such products or if the customer neither makes the confirmation nor applies for the refund within a prescribed period. Sales from our online stores accounted for approximately 0.2%, 1.7% and 2.0% of our total revenue during the years ended December 31, 2008, 2009 and the six months ended June 30, 2010, respectively. In the future, sales from our online stores are expected to account for less than 5% of our total revenue.

We believe that a combination of online stores and physical retail outlets not only helps to strengthen our brand image, but also helps to increase our market share. Thus, we aim to further develop this sales channel so as to increase our reputation and profitability. We ceased our online sales through third-party websites by Shanghai Boshiwa or Boshiwa Enterprise on June 28, 2010 because neither company had obtained MOFCOM's approval for engaging in the non-store retailing business. We then resumed our online sales business in the PRC through third-party websites after the promulgation of the MOFCOM Notice on August 19, 2010. We will also conduct online sales business through Shanghai Desheng and through its self-owned websites upon the granting of the ICP license by Shanghai Communications Administration to Shanghai Desheng and completion of the registration formalities by Shanghai Desheng to include "Internet information services" into its business scope, which are expected to be obtained and completed by the end of 2010, pursuant to the Structure Contracts entered into with Shanghai Desheng and its shareholder on June 28, 2010. Before Shanghai Desheng obtains such ICP license and completes the registration formalities, we will not conduct our online sales business through Shanghai Desheng or through its self-owned websites. Please also refer to the principal terms of our Structure Contracts in "History and Corporate Structure—Financial Investments and Corporate Reorganization—(2) Corporate Reorganization" above.

Our customers

Our customers include our retail customers, authorized third-party retailers and distributors. Authorized third-party retailers and distributors are all Independent Third Parties. For the year ended December 31, 2007, we had 115 authorized third-party retailers and no distributors as we did not engage in the business of wholesale distribution in 2007. We had 99 authorized third-party retailers and 51 distributors for the year ended December 31, 2008 and 115 authorized third-party retailers and 153 distributors for the year ended December 31, 2009. As of June 30, 2010, we had 123 authorized third-party retailers and 167 distributors, of which 56 authorized third-party retailers and 142 distributors were corporate entities and 67 authorized third-party retailers and 25 distributors were individuals. As of June 30, 2010, we had 561 authorized third-party department store concessions, of which 312 authorized third-party department store concessions were managed by corporate authorized third-party

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retailers and 249 authorized third-party department store concessions were managed by authorized third-party retailers that were individuals. We also had 16 authorized third-party street shops, 12 authorized third-party Boshiwa 365 stores and five authorized third-party flagship stores. All of these authorized third-party retail outlets were managed by corporate authorized third-party retailers. We adopt a similar but tighter credit control policy towards authorized third-party retailers and distributors that are individuals than corporate entities. For example, we are more prudent in terms of granting credit periods to these individual authorized third-party retailers and distributors. As we grow, we gradually request these individual third-party retailers and distributors to use a corporate entity to continue their cooperation with us.

We adopted a tight credit control policy during the early stage of our development, which we required all of authorized third-party retailers and distributors to pay for the full unpaid amount prior to the delivery of our products. As we grew, we believed that such policy, to an extent, restricted the development of selected authorized third-party retailers and distributors, which in turn restricted our nationwide expansion. We adjusted our business strategy as a result and began to grant a credit period of up to 180 days to certain high-quality authorized third-party retailers and distributors that possessed good credit histories, sales performance and ordering abilities. Please also refer to “Financial Information—Trade and Other Receivables”.

As of June 30, 2010, our five largest customers were all corporate entities and Independent Third Parties. They were all primarily engaged in the business of sales of apparel, other textile products or other daily necessities.

Our five largest customers accounted for approximately 23.9%, 29.5%, 28.2% and 28.4% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively, while our largest customer accounted for approximately 6.1%, 8.4%, 8.5% and 7.2% of our total revenue for those respective periods. None of our Directors, our executive officers or any person who, to the knowledge of our Directors owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our top five customers, during the three years ended December 31, 2009 and the six months ended June 30, 2010.

The following table sets forth our revenue from sales to our retail customers, authorized third-party retailers and distributors, our online sales, others and discontinued operations, respectively, for the period indicated:

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

Notes:

- (1) Others primarily include sales of sample products provided by our OEM service providers.
- (2) Discontinued operations primarily include our manufacturing business and driver training services, which we disposed of in 2008.

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Amounts in the above table are based on revenue of Shanghai Boshiwa, our principal operating entity, for the relevant periods. See “Financial Information—Basis of Preparation.”

We have grown rapidly since 2008 primarily as a result of the increase in our sales of children’s apparel, footwear and accessories and the addition of other children’s products to our product portfolio. As a result, we have continuously improved the management of our products, our self-managed and authorized third-party retail outlets and our wholesale distribution. We terminated relationships with 26 authorized third-party retailers in 2008 due to their failure to meet our operational standards, including failure to meet our minimum sales requirements. As of June 30, 2010, we had not experienced any non-compliance with our sales policies by authorized third-party retailers and distributors.

The following table sets forth the number of authorized third-party retailers and distributors newly appointed and terminated during the periods indicated:

	Year ended December 31,									Six months ended June 30,			
	2006		2007		2008			2009		2010			
	Total	Appointed	Terminated	Total	Appointed	Terminated	Total	Appointed	Terminated	Total	Appointed	Terminated	Total
Authorized third-party retailers	83	32	0	115	10	26	99	16	0	115	8	0	123
Distributors	-	-	-	-	51	0	51	102	0	153	14	0	167

Authorized third-party retailers

Authorized third-party retailers operate authorized third-party retail outlets, which sell our products exclusively. We sell our products to authorized third-party retailers on a wholesale basis and we do not own authorized third-party retail outlets. Generally, authorized third-party retailers pay in full for our products upon delivery to them and are accountable for their own profit and loss. Authorized third-party retailers are responsible for the sale of and generally not allowed to return the products they have purchased from us.

We adopt strict procedures in selecting authorized third-party retailers. First of all, we communicate with potential candidates to understand their management concepts and industry experience. Our special project team then conducts on-site inspection to ensure that our potential candidates have strong operating capabilities and resources capacities to meet our internal standards. We also conduct research and examination on their market positions, competitive strengths, industry knowledge, sales platforms, inventory control and logistics, sales teams and integrated service capabilities in their regions.

After we have reached an agreement with authorized third-party retailers, we work closely with and assist them to choose the locations. Authorized third-party retailers generally need our approval to determine the locations for their retail outlets. Authorized third-party retailers are also required to adopt our standardized outlet design and layout in their retail outlets, and use our brand names or trademarks of Boshiwa, Baby², Boshiwa 365, Harry Potter, Prince of Tennis and NBA when opening their retail outlets. We have dedicated staff who monitor the renovation process at these authorized third-party retail outlets and verify that the construction work meets our standards.

All authorized third-party retailers undertake to comply with all laws and regulations of the PRC relating to the qualifications of engaging in the retail business. Authorized third-party retailers are required to submit to us copies of the relevant licenses, permits and approvals necessary for their operations, such as Business License, Certificate of Organization Code (“組織機構代碼證”) and Tax Registration Certificate (“稅務登記證”) for a corporate entity and personal Identity Card (“身份證”) for

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an individual. In addition, we generally require authorized third-party retailers to meet our minimum standards, including meeting the minimum purchase requirements, undergoing mandatory training, committing to payment deadline and complying with other general terms set out in the distribution agreement with authorized third-party retailers.

Authorized third-party retailers are required to sell products under our brands of Boshiwa, Baby², Harry Potter and Prince of Tennis or one or more of them to end-users under our distribution agreements. We enter into a distribution agreement with each of authorized third-party retailers which generally includes the following principal terms:

- Designated geographical areas—Authorized third-party retailers are typically authorized to establish our sales channels to sell our products within designated geographical areas.
- Brands and products—Authorized third-party retailers are typically authorized to sell our products of apparel, footwear, accessories and other children's products under our brands of Boshiwa, Baby², Harry Potter and Prince of Tennis or one or more of them.
- Sales channels—Authorized third-party retailers are typically authorized to open department store concessions for our brands of Boshiwa, Baby², Harry Potter, Prince of Tennis and NBA or one or more of them, or street shops, Boshiwa 365 stores or flagship stores, as the case may be.
- Initial/minimum purchase requirement—The initial product purchase requirement for approximately 60% of authorized third-party retailers is generally not less than RMB100,000 for a single authorized brand. The annual minimum purchase requirement varies among authorized third-party retailers depending on their size and sales capabilities. The minimum purchase requirements for the brands of Boshiwa, Baby², Harry Potter, Prince of Tennis and NBA generally range from approximately RMB450,000 to RMB890,000, respectively. Authorized third-party retailers are entitled to various discount rates when purchasing products of our different brands.
- Profit and cost sharing mechanism—Authorized third-party retailers are typically required to pay in full for our products. Authorized third-party retailers are typically responsible for the sale of the products and accountable for their own profit or loss.
- Payment—Authorized third-party retailers are generally required to pay 20% of the purchase prices of the products they pre-order in our sales fairs as initial deposit. The third-party retailers are typically required to pay the remaining amount prior to our delivery of the products to the designated geographical areas.
- Restriction on operations—Authorized third-party retailers are typically prohibited from distributing our products in any undesignated geographical areas under any circumstances without our prior consents. Authorized third-party retailers are typically prohibited from procuring products from channels unauthorized by us or selling self-manufactured products or unauthorized products. Authorized third-party retailers are typically required to adhere to our unified nationwide retail pricing policy. Authorized third-party retailers shall adopt our standardized outlet design and layout, use our standard product labels and packaging and follow our standardized marketing brochures. Authorized third-party retailers are required to undergo mandatory training sessions at regular intervals provided by us.
- Duration—The agreements generally have a term of one year which may be renewed based on the sales performance and valuation of authorized third-party retailers.

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- Sales return policy—Authorized third-party retailers are generally allowed to return defective products subject to our approval.
- Termination right—We are entitled to terminate the agreement in writing with authorized third-party retailers for their non-compliance with our sales policy if such authorized third-party retailers do not rectify the wrongdoings within three days, for instances, engaging in the sale of unauthorized products, amending retail prices without our authorization, refusing to attend sales trainings, failing to meet the minimum purchase requirements or materially damaging our brands' reputation.
- Confidentiality—For two years following the termination of the agreements, authorized third-party retailers are generally obligated to keep confidential any our trade secrets known or used by such authorized third-party retailers, and to not disclose the same to any other third party under any circumstances without our prior written consent.

In 2010, we have introduced new sales arrangements to some authorized third-party retailers that manage our street shops, Boshiwa 365 stores and flagship stores, pursuant to which we reduce the size of our discounts to them by 5% to 20% and we enter into lease agreements with the lessors and are responsible for the rental. We are also responsible for the interior decoration expenses for the retail outlets the authorized third-party retailers operate. We believe that this new arrangement enables us to maintain a consistent style and store layout across our retail outlets. It also lowers our average cost of interior decoration as we purchase furniture, fixtures and interior decoration items for a larger number of retail outlets and are able to obtain volume discount. In addition, we believe that this new arrangement allows us to negotiate more favorable leases for those retail outlets, as many of the lessors have properties nationwide and we generally have better bargaining power with these lessors than our authorized third-party retailers because we have leases with them in a number of different locations. Furthermore, this new arrangement provides us with flexibility in selecting authorized third-party retailers. If for some reason a certain authorized third-party retailer does not meet our requirements, we can more easily select another one to take over the retail outlet as we now own the lease and interior decoration. We do not have any specific plan to recover the rental and interior decoration expenses we have paid for these authorized-third party retail outlets because we are the lessee and we own the interior decoration for these authorized third-party retail outlets instead of the relevant authorized third-party retailers. With the increasing application of this new arrangement, we expect that our net profit margin will be stable or slightly increasing, as we achieve economies of scale over the fixed rental costs and the capital expenditures for furniture, fixtures and interior decorations, and as we achieve more favorable terms from the lessors and suppliers of furniture, fixtures and interior decorations through our expanded operations and increased bargaining power. In 2010 and the foreseeable future periods, we expect that our rental expenses and depreciation relating to the furniture, fixtures and interior decoration for these authorized third-party retail outlets will increase. In addition, our capital expenditures relating to furniture, fixtures and interior decoration will increase as well.

Our distributors

Our distributors are generally local retailers or wholesalers in second-tier and third-tier cities in China. We select our distributors according to a range of factors which we believe important for our operation of the sales network and establishment of broad market coverage. We typically consider the experience of our distributors in wholesaling and retailing of the children's products and their abilities to maintain existed and develop new distribution channels. We also research and make assessment on their historical sales performance, their market positions and their sales and financial capabilities. We believe we have established good and stable relationships with our distributors and most of them have been an important part in the development of our sales network.

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All our distributors undertake to comply with all laws and regulations of the PRC relating to the qualification of engaging in the retail business. Our distributors are required to submit us copies of the relevant licenses, permits and approvals necessary for their operations, such as Business License, Certificate of Organization Code (“組織機構代碼證”) and Tax Registration Certificate (“稅務登記證”) for a corporate entity and personal Identity Card (“身份證”) and Business License for Individual Industrial and Commercial Households (“個體工商戶營業執照”), if applicable. Our distributors are also required to submit to us, if applicable, descriptions and copies of lease agreements of their self-operated retail outlets and introduction of their historical experience in wholesaling of products under other brands.

Our distributors are allowed to sell products under our Baby² brand and other authorized domestic and international brands on a wholesale basis to sub-distributors and end-users under our distribution agreements. We enter into a distribution agreement with each of our distributors which generally includes the following principal terms:

- Designated geographical areas—Distributors are generally authorized to sell our products within designated geographical areas.
- Brands and products—Distributors are authorized to sell our products of apparel under our Baby² brand, and other children’s products under our brands of Baby² and other authorized domestic and international brands.
- Sales and minimum purchase order—Distributors are required to provide general feedback to us on the market perception of our products. Distributors are required to submit their sales and inventory reports to our headquarters on a monthly basis. The minimum purchase order for distributors is generally RMB5,000. Distributors are entitled to various discount rates when purchasing products of different brands.
- Sales return policy—Distributors are typically required to make purchase orders based on their sales capabilities. Apart from product defects caused by quality issues or changes of government laws or regulations, distributors are generally not allowed to return the products they have purchased from us.
- Payment—Distributors are typically required to pay in full for our products prior to our delivery of our products to the designate geographical areas. Distributors are responsible for the sale of the products and accountable for their own profit or loss.
- Restriction on operations—Distributors are typically prohibited from distributing our products in any undesignated geographical areas or selling our products online under any circumstances without our prior consents. Distributors are typically required to strictly comply with our unified nationwide retail pricing policy.
- Duration—The agreements generally have a term of one year which may be renewed based on the sales performance and valuation of the distributors.
- Termination rights—We are entitled to terminate an agreement with distributors for their non-compliance with the terms of the distribution agreement, for instances, not following our sales policy or no sales generated for three consecutive months.

Management of authorized third-party retailers and distributors

All retail outlets, including our self-managed retail outlets and authorized third-party retail outlets are generally required to submit their sales reports and inventory reports to our headquarters on

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a weekly basis. Our distributors are required to submit their sales reports and inventory reports on a monthly basis. All our self-managed retail outlets and more than 70% of authorized third-party retail outlets use or are under installation and testing of the E-MAX system which allows our management team at our headquarters in Shanghai to monitor the sales records and inventory levels of these retail outlets on a real-time basis. These systems enable us to more timely assess and adjust inventories at our retail outlets. For authorized third-party retail outlets that are not using the E-MAX and BI systems, we carry both on-site inspections and spot checks to ensure that these authorized third-party retail outlets comply with our sales and inventory policies and obtain assistance from our headquarters. Our regional sales managers also liaise with our accounting teams to conduct consistency check on the sales reports submitted by authorized third-party retailers that are not using the E-MAX and BI systems and sales reports generated at the regional level to ensure the completeness and accuracy of such sales reports.

We require authorized third-party retailers to periodically undergo mandatory training sessions, which cover various aspects including operational concepts of our stores, our brand culture, products information, display techniques, sales techniques, customer service skills and management analysis. We also provide guidance and training to our distributors on product features and customer service.

All authorized third-party retailers and distributors are required to follow our unified nationwide retail pricing policy, which we believe strengthens our brand recognition, preserves our corporate image as a leading children's product brand as well as helps us to manage the risk of competition and cannibalization at the retail level. In the event that any authorized third-party retailers or distributors fail to adopt our retail pricing policy, penalties will apply. We will also terminate the distribution agreement with authorized third-party retailers or distributors that do not rectify the wrongdoings immediately. As of June 30, 2010, we have not experienced any non-compliance of our sales policy by authorized third-party retailers and distributors. Authorized third-party retailers and distributors are generally allowed to conduct promotional events or sell part of our products to customers at discount prices not lower than our suggested minimum retail prices. We also regularly collect and review the general feedback from authorized third-party retailers and distributors on the market perception of our products in order to make adjustments to our retail prices in an effective and efficient manner.

Our regional sales managers and our teams in charge of retail outlet visits generally conduct on-site inspections once a month and twice a month respectively, to ensure that authorized third-party retailers and distributors comply with our standard operating procedures and the terms in the distribution agreements. If any deviations from the standard operating procedures are discovered at a retail outlet, baby product store or supermarket, we will typically work with the relevant authorized third-party retailers and distributors to rectify these deviations. We also use our best endeavors to ensure that our distributors who do not own retail outlets and only sell our products to sub-distributors comply with our nationwide retail pricing by having our personnel regularly inspect baby stores and supermarkets within our sales regions. Our distributors are generally required to ensure that their sub-distributors comply with our nationwide retail price policy. In the event that any deviations from our nationwide retail prices are discovered, our team will report such deviations to our headquarters and we will conduct further investigations and assist our distributors to rectify these deviations. We also regularly review our selection criteria to improve the general quality of authorized third-party retailers and our distributors.

PRODUCT DESIGN AND DEVELOPMENT

Each of our self-owned and licensed brands has its own dedicated design and development team which understands the character of each brand. They design and develop all of the children's apparel, footwear and accessories under our self-owned brands such as Boshiwa, Baby² and Dr. Frog and licensed brands such as Prince of Tennis, Harry Potter and NBA that fit the desired images of our brands and meet the tastes and preferences of each target market. The teams consist of designers, product and technology developers and professional buyers who work together to create designs for the current and upcoming seasonal collections. As of June 30, 2010, our design and development department consisted of 55 employees, of which there are seven professional buyers, 10 designers of the Boshiwa brand, five designers of the Baby² brand, five designers of the Harry Potter brand, five designers of the Prince of Tennis brand, three designers of NBA branded products, three pattern makers, seven product and technology developers and 10 quality controllers. Individual designers have won various design awards and competitions such as "Second National Design Competition of Kids Apparel of the Year of 1997 Silver" and "Shanghai International Fashion Week Top 10 Designers of the Year of 2004". Our design and development team participates in different stages in introducing new products, such as information collection, product planning, sample making, organization of sales affairs, products making and quality control.

We design mainly for two seasonal collections, one for spring and summer and the other one for autumn and winter. The spring and summer collection offers apparel such as shorts, dresses and vests. The autumn and winter collection offers apparel such as down jackets and padded clothes. The unit prices of our products of the autumn and winter collection are generally higher than that of the spring and summer collection, leading to higher revenue for our autumn and winter collection. Generally, for each seasonal collection, we introduce new designs in three to four phases, offering an average of approximately 300 to 600 new styles for each of our brands. In particular, we make great efforts in designing and developing a full range of products for the Boshiwa brand, an ample portfolio of apparel and other children's products for the Baby² brand and a full line of NBA branded products for the NBA brand. Our strong design and development capabilities also helped us to win the right in China to design and provide children's products for the 2008 Beijing Olympic Games.

Our product and store layout design and development process comprises mainly the following stages:

- **Research**

Our design and development teams attend various domestic and international trade exhibitions to keep themselves informed of the latest fashion trends. They also collect market data from both domestic and international markets, past sales performance, customer surveys, competitive landscape, and feedback and reports from our regional managers and retail outlets managers. The teams then analyze all the information in detail to understand customer preferences and market trends. We plan to engage an independent market research organization to conduct a research on the children's toy and intellectual product market.

- **Design and development**

Based on results from research, our design teams usually design both classic styles and trendy styles to try to capture occasional popular trends in the markets. They produce sketches of designs, including their choice of raw materials, accessories and colors. Based on these sketches and deliberation with the buyers, the design and development teams then liaise with our OEMs and ODMs to make product samples in order to further discuss and make final

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decisions with procurement teams and the sales team on which new products shall be introduced to the market. Our design teams also work closely with our OEMs and ODMs to develop new technologies of materials and printing, embroidery designs in each season. As our design teams understand the local fashion markets, generally, a proportion of our products are designed to meet the needs and consumer spending levels of different geographical areas in the PRC.

- **Product sourcing**

Our design and development teams also include experienced buyers who source products for us. Our buyers are typically experienced in the children's product industry who have good knowledge and understanding and the children's product market in China. Our design and development teams identify market trends and design and source innovative products that attempt to suit Chinese customers' needs. Our buyers source and negotiate with the suppliers that we believe may offer us good guarantees for quality, variety and delivery dates.

- **Store layout design**

Our design teams also design the layout of our retail outlets and the presentation of the merchandise in our retail outlets in ways that are intended to maximize their attraction to customers and which are distinctive and characteristic to the particular brands sold at the retail outlets. The layout of all our retail outlets, including authorized third-party retail outlets, are designed by our design teams at the headquarters.

Our design teams are also responsible for the first stage of quality control of our products. Product pricing is then assessed by taking into account, amongst other things, the market conditions and acceptance of our products. Our designs and products are displayed at seasonal sales fairs for our regional sales managers and authorized third-party retailers to place orders.

MARKETING AND PROMOTION

Our marketing and promotion strategy has been an important component of our success. We have implemented multi-faceted marketing strategies, which include sponsorship of children's events, various forms of advertising including Internet, television advertising and magazines, retail sales promotions and other promotional activities. We have collaborative relationships with a number of well-known international and domestic media companies and sports event organizers, such as Warner Bros. and SMG, which possess the media resources to help promoting our products and brands. We were the designer and provider of children's products for the 2008 Beijing Olympics. Our association with such popular sports events has helped to enhance our brand recognition.

We rely on promotional activities to increase consumer awareness of our products and to create strong brand recognition within our target markets. We participate in charitable activities to assume our corporate social responsibility and establish our public image. We have contributed and donated to various charitable foundations for children. We also emphasize the attractiveness of our in-store displays and presentations which we believe strengthens our brand image and is also critical in creating a comfortable environment for our customers. We aim to convey the ideas that we care for the children in the PRC and that our goal is to improve the living and quality standards of the children in the PRC. The following are our main marketing activities:

- **Sponsorship of children's events**

We periodically sponsor large scale children's events. For example, in November 2009, we organized the "World Expo and My Dream" event during which participating children

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expressed their dreams and wishes and we provided them certain training and guidance. The event encouraged children to pursue their dreams and promoted our social responsibility. Other similar events we sponsored include children's model contest, publication of a children's English-Chinese dictionary, the selection of China's best 100 young pioneers and 10,000 children drawing Boshiwa together in a public square in Shanghai.

- **Media, print and Internet advertising**

We advertise our brands on national television networks, radio stations in Shanghai, newspapers and in children fashion magazines. We also place outdoor and indoor large-scale printed advertisements at our department store concessions, street shops and in elevators within shopping malls.

In addition, we advertise online at children's apparel websites such as <http://sh.iyun.com/> (愛孕網) and www.liba.com (籬笆網).

- **Participation in exhibitions**

We attend the Beijing International Apparel Exhibition (北京國際服裝博覽會) and the Maternity and Baby Expo (孕嬰童展覽會) in Beijing in March or April each year to promote our brands. We also attend the Shanghai Maternity and Baby Expo (上海孕嬰童展覽會) in May each year. Participation in these exhibition increase consumers' awareness and recognition of our brands and products.

- **Sales fairs**

Every year, we organize two sales fairs for our new product launches to market and promote our new designs and products. The exact time of our sales fairs varies from year to year because our sales fairs are typically organized to accommodate our sales and marketing plans, such as launching our new Boshiwa 365 stores or flagship stores. We generally organize sales fair for our new products of the spring and summer collection during September to November and our new products of the autumn and winter collection during April to July.

We held a press conference in Beijing in March 2010 with the NBA to announce the launch of our NBA branded products.

- **Cooperation with local governmental departments**

We co-host promotional events with various institutions which relate to education, health and medical care. These events allow us to have face-to-face communication with our target customers to understand their preferences and needs and to build their brand loyalty to us.

- **Distribution of product catalogs and posters**

In order to promote the latest designs from our seasonal collections, we print product catalogs and posters which are designed to attract customers to our retail outlets.

- **Maintenance of product websites**

Customers can access our company website to obtain more information about our brands, store locations and latest products.

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- **Other promotional activities**

Between 1996 and 2007, we conducted a “Chinese Zodiac Baby” event that spanned 12 years, representing the 12 Chinese zodiac signs. We visited the first baby born in Shanghai at the beginning of each lunar year and committed to provide 15 years of products and services to the baby to express our care and blessing. SMG broadcasted our visit each year on the Chinese New Year’s Day and made a special television program on our ongoing sponsorship for the first born baby on Chinese New Year’s Day, promoting our passion for children and our growth.

Since 1995, for 15 consecutive years, we had sponsored the “China Cup Children’s Apparel Design Contest”. This event attracted many designers to participate and enhanced our recognition within our industry. It was a platform to explore and develop new designers for children’s apparel.

In January 2010, we held a series of parents-and-children fun events at our flagship store in Shanghai, which attracted a large number of families to participate and boosted our sales.

Each of our sales regions is responsible for coordinating and developing marketing and promotional activities tailored to the specific circumstances of the retail outlets within their region. Such activities include:

- **VIP card program**

To promote loyalty of our customers, we have cooperated with authorized third-party retailers and launched nationwide VIP card program at our retail outlets. We had approximately 210,000 VIP members as of June 30, 2010, including VIP customers from both our self-managed retail outlets and authorized third-party retail outlets. Typically, VIP cardholders enjoy a discount for their purchases and receive invitations to our sales activities for VIP customers. Revenue from sales to our VIP customers is recognized at the net amount after deducting the discount.

- **Seasonal promotions and discounts**

Seasonal sales—As part of our sales strategy, we sometimes offer discounts on selected products for a limited promotional period at our retail outlets. We generally conduct these promotional sales twice a year, one at the end of the spring and summer season and one at the end of the autumn and winter season. Department store promotions — We sometimes participate in department store initiated promotions to take advantage of the increased number of customers visiting a department store during promotional periods.

PRODUCTION OUTSOURCING AND PROCUREMENT

We currently outsource the production of all our products to domestic OEMs and overseas ODMs, which are Independent Third Parties. We also procure other children’s products from domestic and overseas suppliers. We believe that this strategy allows us to devote less of our management time on monitoring the whole production process and focus our resources on key stages of the product life cycle, such as product design and development, brand promotion and management, and sales and marketing. This strategy has also enabled us to avoid direct exposure to operational and financial risks and expenses of operating production facilities and managing labor, and allows us to maximize the returns on our assets.

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Production outsourcing

Prior to the disposal of our manufacturing facilities in 2008, a significant portion of our business consisted of manufacturing apparel products for overseas companies on an OEM basis. We also had our own products under our Boshiwa, Baby², Harry Potter, Prince of Tennis and Dr. Frog brands. We followed a flexible production policy whereby we decided whether to manufacture products internally or through third parties depending on our equipment, our manufacturing capacity, the type of product and other internal capabilities. Generally, we manufactured part of our textile apparel products for our self-owned brands such as Boshiwa and Baby². We outsourced part of our OEM business, and other kinds of our apparel products and all of our non-apparel products under our self-owned brands and licensed brands to various independent OEMs and ODMs in China and Japan.

Shanghai Rongbai was our indirect subsidiary from its inception in March 2007 until September 2008, when we disposed of Rongchen Knitting, our subsidiary and Shanghai Rongbai's parent company, to two Independent Third Parties. As part of the entire transaction, the two Independent Third Parties also appreciated the value of the manufacturing facilities of Shanghai Ronghua, Shanghai Rongfeng and Shanghai Rongli, our previous subsidiaries and associated companies, therefore, they offered to buy these manufacturing facilities by acquiring the equity interests of Shanghai Ronghua, Shanghai Rongfeng and Shanghai Rongli through Rongchen Knitting and Shanghai Rongbai. Our Directors agreed to the offer because it was the most favorable one commercially. Therefore, in August 2008, which was prior to the acquisition of Rongchen Knitting by the two Independent Third Parties, we sold our manufacturing companies, Shanghai Ronghua, Shanghai Rongfeng and Shanghai Rongli, together with their manufacturing facilities, to Shanghai Rongbai. Please refer to the paragraph headed "Disposal of our PRC subsidiaries and associated companies" under the section headed "History and Corporate Structure" for details of the disposals of Rongchen Knitting, Shanghai Ronghua, Shanghai Rongfeng and Shanghai Rongli. As our indirect subsidiary from March 2007 to September 2008, Shanghai Rongbai conducted part of our apparel manufacturing OEM business. Since our disposal of Rongchen Knitting and Shanghai Rongbai in September 2008, Shanghai Rongbai has been providing OEM services to us as an Independent Third Party. As our OEM, we believe Shanghai Rongbai possesses sufficient manufacturing capacities and good quality control system that meet our standards. Shanghai Rongbai is also an authorized third-party retailer and operates some authorized third-party retail outlets.

Following the disposal of our manufacturing business in 2008, we outsourced the production of all our products under our self-owned brands and licensed brands to various domestic OEMs and overseas ODMs, who are engaged to perform the entire production process and will be responsible for procurement of the relevant raw materials. The cost of outsourced production amounted to approximately 87% and 74.2% of our total cost of production outsourcing and procurement for the year ended December 31, 2009 and the six months ended June 30, 2010. As of June 30, 2010, we engaged approximately 60 OEMs in the PRC and four ODMs in Japan to manufacture our products. We understand that some of these OEMs and ODMs are large and medium-size enterprises specialized in production of children's apparel, accessories and other children's products and with experience of providing OEM or ODM services to internationally recognized brands. We have continued to use the manufacturing companies we disposed of in 2008, Shanghai Ronghua and Rongcheng Knitting, for the production of our apparel products, as we believe they are familiar with our requirements and standards. All of our transactions with these companies since their separation from our Group have been on an arm's-length basis. We have more than five years of relationship with some of our OEMs and more than one year of relationship with all our ODMs. We believe we have a good working relationship with our OEMs and ODMs.

We carefully select our OEMs and ODMs and require them to satisfy certain evaluation and assessment criteria. We carefully evaluate their overall track record, financial strength, experience,

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reputation, ability to produce high-quality products and quality control effectiveness. We also conduct annual evaluation of our existing OEMs and ODMs to identify and remove unqualified OEMs or ODMs from our approved list of OEMs and ODMs. In addition, we generally require our OEMs and ODMs to keep confidential any our commercial secret known or used during our cooperation period. Our OEMs or ODMs shall be liable for all our financial losses if such OEMs or ODMs disclose our commercial secret to any other third party under any circumstances without our prior consent.

We generally provide our OEMs with the designs and specifications of our products and recommend suppliers for them to procure raw materials for their production. We believe that all our five largest OEMs are experienced in the manufacturing industry and we have more than five years of relationship with all our five largest OEMs. We generally outsource our apparel, footwear and accessories to our largest OEMs, Shanghai Ronghua, and outsource our products of apparel and accessories to our other four largest OEMs. We are not bound to purchase any minimum quantity of products from our OEMs. Set out below are the material terms of the purchase contracts we generally enter into with our domestic OEMs:

- **Quality**—OEMs are generally required to manufacture and pack our products in accordance with the standards set out in our handbook of quality inspection and packaging requirement. OEMs are generally required to provide quality inspection reports issued by a third-party quality inspection institution designated by the government authority. In the event that there is any discrepancy between the description of finished products stated in the inspection reports produced by government inspection bodies and the description stated in the quality inspection report produced by OEMs relating to the quality of the products, OEMs are generally liable and responsible for all our losses caused by such discrepancy.
- **Delivery**—OEMs are generally required to deliver the finished products directly to our warehouses at the times agreed with us, failing which will result in penalty. The quantity of the finished products delivered to our warehouse shall not exceed 2% of our prescribed total orders.
- **Payment**—We are generally required to pay 30% of the total contract value as an initial deposit after we inspect the sealed samples and before a volume production takes place. We shall pay the remaining amount within three months upon receiving the tax invoices from and confirming the quality and quantity of the finished products delivered by OEMs.
- **Product defects**—OEMs are generally liable and responsible for the damages and losses which arise out of or in connection with the supply of the products.

To ensure the high quality of our products, we require all of our design and development team members and the OEMs to comply with the relevant laws, regulations and national standards of the PRC relating to the product quality, such as the Product Quality Law of the PRC (“中華人民共和國產品質量法”) and GB18401-2003. We require our OEMs to present quality inspection report issued by the designated national or local quality inspection institutions, such as State Supervision and Inspection Center for Garment Quality (Shanghai, Tianjin and Ningbo) (“國家服裝質量監督檢驗中心（上海、天津及寧波）”) and Shanghai Institute of Fibre Inspection (“上海市纖維檢驗所”), upon delivering our finished products. We also have our own quality control staff to conduct inspection at the production facilities of the OEMs during the manufacturing process and before the finished products can be accepted by us and entered into our warehouse.

Our products are also subject to random inspections by the provincial, municipal and local government inspection bodies, such as Shanghai Municipal Bureau of Quality and Technical

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Supervision (“上海質量技術監督局”) and the third-party inspection bodies appointed by local Administration of Industry and Commerce. In the event that there is any discrepancy between the description stated in the reports of random inspections produced by government inspection bodies and the description stated in the quality inspection reports presented by our OEMs due to the factors, for instance, using different testing methods or equipment, our OEMs are generally liable and responsible for all our losses caused by such discrepancy. As of June 30, 2010, we had not experienced any losses from such discrepancy. Please also refer to “Quality Control” below.

We also have outsourcing arrangements with ODMs whereby our ODMs design and manufacture our other children’s products based on our agreed product specifications. Our design and development teams normally liaise with our ODMs to make initial product samples. The product samples are then tested by Shanghai Entry-Exit Inspection and Quarantine Bureau (“上海出入境檢驗檢疫局”) before we can further obtain filing certificates from the State Food and Drug Administration (SFDA) of the PRC (“國家食品藥品監督管理局”) for certain products if necessary. Once we ensure our products comply with all laws and regulations relating to product quality, we then advise our ODMs to start large-scale production. Our ODMs are required to present us quality inspection reports of the finished products issued by the Japanese quality inspection institution, such as Japanese National Drug Division (“日本國家藥物科”), before the shipment of our products.

We generally pay the full amount to our ODMs by telegraphic transfer prior to the shipment of our products. Our ODMs normally deliver the products to our designated destination at the time as agreed with us. We currently engage four Japanese professional ODMs, which are KOSE (KOSE 株式會社), COSMOBEAUTY Co., Ltd (COSMOBEAUTY), AiTEC Inc. (AiTEC 株式會社) and Sankyu Chemical Industry Co., Ltd. (Sankyu 三鳩化學工業株式會社). KOSE, a cosmetic manufacturer in Japan, is our ODM that manufactures baby detergent products under our Baby² brand. COSMOBEAUTY, another cosmetic manufacturer in Japan, is our ODM that manufactures skin care products under our Baby² brand. AiTEC, a toothpaste manufacturer in Japan, is our ODM that manufactures baby toothpaste under our Baby² brand. Sankyu, a soap manufacturer in Japan, is our ODM that manufactures various baby soaps under our Baby² brand.

Set out below are the general terms of the purchase contracts we generally enter into with our overseas ODMs:

- Product Specifications—ODMs are generally required to manufacture the products in accordance with our agreed product specifications. Reasonable deviations relating to weight, measurements, design and color are allowed.
- Product defects—We are generally required to file our claims relating to the product quality within 30 days upon the arrival of the products to the designated destination.

Our five largest suppliers to whom we outsource accounted for approximately 40.1%, 52.3%, 58.2% and 58.1% of our total costs for outsourced production for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. All our five largest suppliers are our OEMs and have cooperated with us for two to five years. Our largest OEM to whom we outsource have cooperated with us for five years and accounted for approximately 18.9%, 37.6%, 48.7% and 38.8% of our total costs for outsourced production for those respective periods.

None of our Directors, our chief executive or any person who, to the knowledge of our Directors owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our top five OEMs and ODMs to whom we outsource, during the three years ended December 31, 2009 and the six months ended June 30, 2010.

Procurement of other children's products

We have actively introduced high quality baby products and maternity products abroad from Japan, Australia and other regions. As of June 30, 2010, we have entered into agency agreements with eight international children's product brand owners in Japan and Australia, pursuant to which we are the sole agent for the brands of CHUCHU, PIP Baby and Slimwalk and authorized agent for the brands of Milk Baby, Curash, Armstrong, Marusan and Atopita, to market and sell other children's products in the PRC. In addition, we have also obtained the filing certificates from SFDA for the import of baby cosmetics products under brands of Curash, Milk Baby and Atopita. We also enter into distribution agreements with and act as sub-distributor of authorized PRC distributors under specified international brands, such as the brands of Combi, Aprica, Pigeon, Nuk, Wakodo and Pampers, to sell a range of children's products in the PRC.

Under laws and regulations of the PRC, for the non-special purpose cosmetic products that are imported into the PRC for the first time, the overseas manufacturers shall designate a registration agent in the PRC to apply for filing certificates from SFDA. As the registration agent designated by our overseas manufacturers, we have obtained the filing certificates from the SFDA for 15 kinds of baby cosmetic products under the brands of Curash, Milk Baby and Atopita, and we have been appointed as their authorized agent to market and sell their cosmetic products in the PRC. Our products that are required to obtain the filing certificates from SFDA are products under Curash brand, including baby powder, baby shampoo and conditioner, baby diaper ointment, baby moisturizing shower gel and baby body lotion; products under Milk Baby brand, including baby sleeping massage oil and baby shampoo and moisturizing shower gel; and products under Atopita, including baby moisturizing shower gel, baby lip protection, baby body lotion, baby body cream, baby body oil, baby shampoo, baby moisturizing bath salt and baby liquid bath soap. In the event that the filing certificates of newly imported baby cosmetic products are not obtained or our current filing certificates are not renewed upon expiration of the validity period, we would be prohibited from importing and sale of such cosmetic products in the PRC market.

In addition, we have also procured certain children's products from Chinese suppliers since 2009, including baby feeding products, baby bath products, baby toys, baby bedding and strollers. These children's products are mainly sold in our Boshiwa 365 stores and flagship stores. The total cost of procurement of children's products from Chinese suppliers amounted to approximately 2% and 3.8% of our total costs for outsourced production and procurement for the year ended December 31, 2009 and the six months ended June 30, 2010.

We are generally required to achieve minimum sales targets for our agency agreements and minimum purchase requirements for our distribution agreements. As of June 30, 2010, we have not failed to meet any minimum sales targets or minimum purchase requirements set forth in our agency or distribution agreements.

We are the sole or authorized PRC agent for eight international children's product brands under our agency agreements. We are authorized to import products on our own account and distribute them through our retail network. In addition, we are authorized to apply for any filing certificates or product registrations on behalf of Milk Baby, Curash and Atopita required by the PRC government. We are one of the sub-distributors of authorized PRC distributors under our distribution agreements for specific international brands. We are authorized to distribute children's products for multiple international and domestic brands through our sales channels. Under both agency and distribution agreements, we are required to use our best endeavors to market and sell the products. We are also required to meet minimum sales target under the agency agreements and minimum purchase

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requirement under the distribution agreements. Set out below are the material terms of our agency and distribution agreements we generally enter into with our suppliers:

Our agency agreements

- Brands, products and territory—We are typically authorized to market and sell a range of other children's products under the brands of CHUCHU, Milk Baby, Curash, Armstrong, Marusan, PIP Baby, Atopita and Silmwalk in the PRC.
- Product Registration—We are typically authorized to obtain and maintain the necessary product registrations for importing cosmetic products to the PRC under the brands of Milk Baby, Curash and Atopita.
- Sales channels—We are typically authorized to market and sell other children's products under specific brands through our sales channels.
- Minimum sales target—We are generally required to complete a minimum sales target for the brands of CHUCHU, Milk Baby, PIP Baby and Silmwalk. In the event that we fail to achieve the minimum sales target, our suppliers may terminate the agreement with us.
- Pricing—Prices of the purchased products are generally decided through consultation between the parties based on the written estimated quotations presented initially by the suppliers.
- Payment—We are generally required to pay our suppliers by telegraphic transfer or establishing a letter of credit facility through banks four weeks prior to the shipment of our products.
- Delivery—The suppliers are required to deliver our products at the time and to the designated destination as decided through consultation between the parties.
- Duration—The agreements generally have a term of one year to four years which may be renewed on the same terms by the parties based on our sales performance.
- Liability for product defects—The suppliers are generally liable and responsible for the damages and losses which arise out of or in connection with the supply of the products. We are generally allowed to return or exchange defective products upon written approval of our suppliers or through consultation between the parties.

Our distribution agreements

- Brands, products and territory—We are typically authorized to purchase a range of other children's products from authorized PRC agents of specified international brands, such as the brands of Combi, Aprica, Pigeon, Nuk, Wakodo and Pampers, and market and sell such products in the PRC.
- Sales channels—We are typically authorized to market and sell other children's products under specific brands in our retail outlets.
- Minimum purchase requirement—We are generally required to purchase a minimum quantity of products from our various suppliers.
- Pricing—We are typically required to comply with the pricing policies of our suppliers. In some cases, prices of the purchased products shall be decided through consultation between the parties.

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- **Payment**—We are generally required to pay the full amount prior to the product delivery by our suppliers.
- **Purchase return policy**—We are typically required to make purchase orders based on our sales capabilities. Apart from product defects caused by quality issues or change of government laws or regulations, or products that may infringe intellectual property rights of a third party, we are generally not allowed to return the products we have purchased from our suppliers.
- **Delivery**—Suppliers are generally required to deliver the products at the time and to the designated destination as decided through consultation between the parties. We may also collect the products from our suppliers.
- **Duration**—The agreements generally have a term of one year which may be renewed by the parties based on our sales performance.
- **Liability for product defects**—The suppliers are generally held liable and responsible for the damages and losses which arise out of or in connection with the supply of the products.

The total cost of procurement of children's products from suppliers amounted to approximately 1%, 6%, 13% and 25.8% of our total costs for outsourced production and procurement for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively.

None of our Directors, our chief executive or any person who, to the knowledge of our Directors owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our top five suppliers of non-apparel children's products, during the three years ended December 31, 2009 and the six months ended June 30, 2010.

Management of production orders

Most of our new products are initially launched at our sales fairs, which are sometimes highlighted by fashion shows displaying the new designs and collections or by face-to-face introduction of recent trends. We generally organize sales fairs twice every year, one for the spring and summer collection, and one for the autumn and winter collection.

- **Pre-season initial production orders**

Once the product samples are finalized, we hold semi-annual internal product fairs to showcase our new collection of apparel and accessory products. Our regional sales managers, authorized third-party retailers and retail outlet managers of our self-managed retail outlets and authorized third-party retail outlets attend our sales fairs, where they review new products' prototypes. During the sales fairs, we will introduce the characteristics and styles of the products of the new collection, and also ideas are exchanged among the participants in respect of the current and future trends in the industry of children's apparel and accessories. After the sales fair, authorized third-party retailers will then, based on their knowledge of local consumer preference, place initial orders, which are not legally binding, to us detailing the styles and quantity of the products they require. Our sales team in headquarters will, based on previous sales data and inventory levels derived from our E-MAX system and BI system, as well as their experience, review and analyze such initial orders and make recommendations and provide advice to these authorized third-party retailers if necessary. Based on our prior experience, authorized third-party retailers will normally accept our recommendations and advice to make their final orders. The managers of our self-managed retail outlets will also

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place initial orders at the sales fair based on which we will make purchase orders with our OEMs and supply products to those outlets accordingly. The regional sales managers then review and approve such orders based on previous sales data. Our sales managers and authorized third-party retailers place their orders for new products at the sales fairs, and based on these orders, as well as our expansion plan in connection with opening more retail outlets, we then forecast the demand for our products in the coming seasons and determine appropriate production schedules. The products are then outsourced and manufactured by our OEMs.

- **Intra-season supplemental production orders**

We will purchase products from our OEMs based on the specifications as set out in the initial production orders. Our product managers of each sales region will analyze the actual sales performance of the new products and make supplemental production orders for our self-managed retail outlets. Our procurement team will then consolidate all the supplemental production orders and purchase orders from our OEMs for the production. Our procurement team will work towards completing the production process within a short time in order to deliver the finished products to the respective retail outlets in a timely manner. In the event of any shortage of products supply, our logistics department will, based on real time information regarding product tracking, reallocate such products from our self-managed retail outlets to authorized third-party retail outlets, or reallocate products between our self-managed retail outlets.

The finished products are transported to our central warehouse and inspected by our design teams and quality control department before they are delivered to our self-managed retail outlets and authorized third-party retailers, which in turn sell the products directly to consumers.

We believe that by adopting this multi-ordering system, we are able to manage the production schedules of our OEMs more efficiently and minimize the production of surplus or unpopular products while responding quickly to market demand, accelerate our products turnover and increase the profitability.

RETAIL MANAGEMENT AND OPERATIONS

Our management structure

We have a three-tiered management structure consisting of our headquarters, our sales regions and our retail outlets.

Headquarters

Our headquarters in Shanghai is primarily responsible for strategic business development, nationwide marketing and brand management, financial management, senior personnel recruitment and training, internal control, setting performance and budget targets and supervising our performance.

Our headquarters carefully monitors the performance of each sales region and retail outlet. Each month, our headquarters produces a report which ranks the overall performance of each sales region relative to our other sales regions and of each retail outlet relative to our other retail outlets. The purpose of the internal ranking system is to identify any management or operational deficiencies within the sales regions and retail outlets. Our management team at the headquarters would then propose improvement schemes.

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Sales regions

We divide our retail operations into seven sales regions in the PRC, namely eastern China, northern China, northwestern China, southwestern China, southern China, northeastern China, and central China. Each of our regional sales team is responsible for coordinating and developing marketing and promotional activities tailored to the specific circumstances of the retail outlets within their region. Each sales region has a regional manager and a product manager. Our regional sales managers are principally responsible for the management and supervision of sales performance, staff administration and product management of the retail outlets, as well as the development of new retail outlets within their regions. Our product managers are responsible for integration of readily marketable products, as well as reallocation of products among retail outlets according to relevant statistics and information within their regions. They also continuously collaborate with our design and development teams for each brand by providing updated outlet sales data and feedback on customer preferences.

Retail outlets

The retail outlets are under the management and supervision of their respective regional sales teams, who focus primarily on product sales and customer service. The retail outlet managers are responsible for the sales targets, the store image, the financial performance and staff management of their retail outlets and they report to the regional sales managers.

Design and appearance of our retail outlets

We believe that each of our brands has a unique and characteristic cultural and market position, and our retail outlets are characterized by a distinctive store identity. We aim to create a comfortable shopping environment for our customers by adopting a set of visual standards of different styles and using design elements and facilities with modern feeling. The design, space planning and layout of the retail outlets for our brands follow visual system guidelines set by our headquarters. Under the guidelines, all the retail outlets for each brand must present a consistent visual image, particularly through the design and color of the shop fronts, merchandise display, price tags, cashier counters and staff uniforms.

The areas of our retail outlets generally range from approximately 30 to 80 square meters for our concessions in department stores, 150 to 300 square meters for our street shops, 300 to 500 square meters for our Boshiwa 365 stores and 1,500 to 3,000 square meters for our flagship stores. The number of employees per retail outlet depends on the size, location and type of retail outlet.

Location of our retail outlets

We believe that location selection is critical to the success of the operation of our retail outlets. Our retail outlets are typically located in well and fully developed department stores or shopping malls as well as on flourishing business districts. We also consider the following factors when selecting a location to establish a new retail outlet:

- proposed location of the retail outlets and the shopping patterns and spending power of the targeted customers;
- analysis of the population density and growth, and development potential;
- geographical location;

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- competition in the surrounding area of the proposed location; and
- estimated initial capital investment, investment payback period and rate of return on investment.

Our retail outlets personnel

Our retail outlets personnel are responsible for all facets of their retail outlet's operation, including achieving the retail outlet's sales target, providing high standard of customer service, maintaining the retail outlet's store image, and transmitting customer feedback data and market information to our design and development teams and sales management teams.

We place great emphasis on the training and development of our retail outlets personnel. We provide internal and external training programs to our retail outlets personnel in areas such as information of each season's products, sales skills and customer service. All new employees, of both our self-managed retail outlets and authorized third-party retail outlets, are required to attend induction courses and evaluations to ensure they are equipped with the necessary skills to perform their duties.

Pricing

Our profitability depends in part on the price competitiveness of our products. In order to maintain our price competitiveness and sales volume, we review our pricing strategy regularly and make adjustments based on the following factors:

- retail price of the products of our competitors;
- market positioning of our brands;
- the characteristics and added value of our products;
- the expected profit margin of our individual product; and
- the degree of saturation of the current market, anticipated market trends and expected changes of demand from customers.

The price range of our products is typically determined by our headquarters and our headquarters will formulate a detailed pricing guide for each sales region. All our self-managed retail outlets, authorized third-party retail outlets and our distributors are required to follow our nationwide retail pricing policy. Our products are sold to authorized third-party retailers and distributors at a discount to suggested retail prices. The amount of discount to the suggested retail price varies among authorized third-party retailers and distributors depending on the type of products ordered as well as other terms of the orders.

We believe that, compared with our competitors, our apparel products are more competitive due to our distinctive brand culture and high quality. The prices of our apparel products are generally affected by the increased costs of raw material and labor. We believe that the prices of our imported other children's products are also generally higher than those of our competitors as we are the authorized agent for eight international brands and all our products are imported with original packaging and with a high degree of safety and quality. The costs of our other children's products are relatively stable as we normally settle our payment with our suppliers in the US dollar, which has had stable exchange rates against the Renminbi. In determining suggested retail prices of our products, we

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take into account market supply and demand, our procurement costs and our competitors' prices. We generally have been able to pass our increased costs to our retailer customers. If we are unable to pass on such increased costs, our results of operations may be materially and adversely affected. See "Risk Factors—Increases in commodity prices will increase purchasing costs for our products and may reduce our profitability as a result."

Cash Management

As our business operations span across 28 provinces and more than 140 cities in China, we have established a system to maintain strict control over our cash inflow and outflow. Under this system, all cash inflow arising from the operations of our self-managed retail outlets in each of the sales regions is deposited into our bank account on a regular basis. These deposited amounts are then transferred directly to our headquarters. All cash outflow must be cleared by our headquarters, which is responsible for all cash management and budgeting decisions. Our headquarters requires each sales region and self-managed retail outlet to prepare an internal budget at the beginning of each year for the approval of our headquarters. The percentage of our cash sales to our retail customers for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was 4.5%, 11.4%, 14.6% and 20.8%, respectively.

Our general policy for authorized third-party retailers and distributors are that these authorized third-party retailers and distributors are required to pay the purchase prices in full prior to our delivery of the products to designated geographical areas. However, we grant a credit period of no more than 180 days to authorized third-party retailers and distributors based on their credit histories and historical sales performance. We require all authorized third-party retailers and distributors to comply with our credit policy and our finance department carries out regular reconciliations of outstanding balances.

As of June 30, 2010, we had not experienced any material incident of and losses from cash misappropriation.

INFORMATION SYSTEM

We believe that a comprehensive information system is important in improving our efficiency in product design and development, supply chain management, quality and inventory control, logistics and sales. We maintain a computerized information system which integrates the functions of merchandising, stock replenishment, inventory distribution and sales. Our management information systems enable us to administer and operate our fast-growing, nationwide sales network of department store concessions, street shops, Boshiwa 365 stores and flagship stores.

All of our self-managed retail outlets and approximately 70% of authorized third-party retail outlets are equipped with or under installation and testing of E-MAX system, a standard management information system developed by a third-party software development company, which enables our headquarters and sales regions to analyze and record sales details and to track inventory on a timely basis. Through the E-MAX system, sales information from each retail outlet is collected and uploaded to the host system of the respective sales region as well as our headquarters. It is designed to provide comprehensive coverage of various aspects of our business, including product cataloging, warehousing, supply chain management, sales orders, logistics, procurement, sales, inventory management, branch office management, retail sales management, business data analysis and decision-making support.

We also use BI system, a computer software developed by another third-party software development company, to analyze and consolidate data collected from the E-MAX system to ascertain

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consumer preference in order to determine our corresponding production orders and specifications. We are able to access extensive data, such as sales records, inventory levels and various other operating data, with regard to our retail outlets on a real-time basis and to monitor all of our retail outlets through live video surveillance from our headquarters. Our information systems enable us to gather information on consumer purchases, monitor consumer preferences, make timely assessments regarding market trends and quickly make changes in response to market conditions, including inventory reallocations among our retail outlets. We use our information systems to manage our logistics. These systems facilitate the timely and accurate delivery of shipments and the accurate accounting and balancing of inventory among the retail outlets. We believe that further enhancement of our information system will be essential to meet our further expansion and needs.

During the three years ended December 31, 2009 and the six months ended June 30, 2010, we did not have any material system failure except that our information system was once hacked by unknown people in 2007 by way of virus attack, which was removed shortly. The incident did not cause any interruption to our business operation and had no impact to our business operation or financial position. In order to ensure that our information technology system is properly protected to reduce any potential risks, we have been making continuous investment in upgrading our information system, including updating computer hardware and installing advanced firewall and upgraded anti-virus software. Our existing information system is also able to automatically backup business data on a daily basis and in case of any system failure, a backup system will be activated to support our business operations. Besides, in the event of any power outage, our backup power supply system could support our information system and eliminate the possibility of data loss.

INVENTORY CONTROL AND LOGISTICS

Our inventory policy is to maintain low levels of product inventory while assisting the retail outlets to maintain sufficient levels of sellable products. All our self-managed retail outlets, warehouses and approximately 70% of authorized third-party retail outlets are equipped with or under installation and testing of the E-MAX system, which makes real time information of inventories available. The E-MAX system provides notification whenever the stock volume falls under a specific level. This helps us to respond and adjust stock volume efficiently and effectively. For those authorized third-party retail outlets which do not install the E-MAX system, they are required to provide us the information regarding their inventories on a weekly basis.

Our logistics department timely monitors our inventories, including inventory levels, inventory age and inventory composition. To further minimize the risk of building up aged inventories, it is our policy to regularly review the obsolescence of inventories based on the expected future saleability and the age of the inventories. We also carry out physical stock counts from time to time to identify obsolete or damaged goods. As we also closely control our procurement in line with our expected sales, we generally do not have much aged inventories. We sell our inventories aged more than one year at discounted prices at the end of each season. We record a provision against certain inventories if the estimate of the net realizable value is below the corresponding costs of such inventories. We made provisions of RMB0.2 million, RMB2.5 million, RMB0.06 million and RMB0.3 million for inventories for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. In addition, due to the long shelf life our products generally have, we do not record a provision for obsolete inventory if the inventory age of certain products is within one year. Our products of apparel, footwear and other children's products including majority of the cosmetic products generally have a shelf life more than two years. We record a bad debt provision of 20%, 30% and 50% of the product value if the inventory age of products is within one to two years, two to three years and above three years, respectively. We adopt a different provision policy for our food products. We generally procure high-quality imported food products. Due to the small amount of food products we

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procure comparing to the procurement of our other children's products, we do not have much aged inventories. We generally conduct promotional sales for food products several months prior to their expiration date.

We also track the inventory level of the retail outlets, the purpose of which is mainly to allow us to gather sufficient information and data regarding the market acceptance of our products so that we can reflect the consumers' preferences on the design of our products in the next season. The tracking of inventory level also provides useful information to us as to the market recognition of our products in a particular region so that we could realign our marketing strategy if needed. This information will also assist us and authorized third-party retailers to determine the amount and frequency of our products to be delivered to each third-party retailer.

We organize weekly meetings to meet with people from our sales department and logistics department to discuss and analyze inventory age and reallocation of products from our self-managed retail outlets to authorized third-party retail outlets, or reallocation of products between the self-managed retail outlets, if necessary. We will also coordinate with authorized third-party retailers to reallocate products to regions where demand is stronger.

The balance of our inventory as of December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 accounted for approximately 49.2%, 30.9%, 27.8% and 30.0%, respectively, of our total current assets, while our average inventory turnover days were 202, 177, 119 and 102, respectively.

Almost all of the finished products supplied by our OEMs and ODMs are directly delivered, mainly by road transportation with some by air transportation, to our warehouse at the cost of the OEMs and ODMs, depending on the terms of the relevant purchase contract. We deliver our products to our self-managed retail outlets and to agreed delivery points for authorized third-party retail outlets and distributors, through logistics companies who bear the risks and losses associated with the delivery of our products, and we bear the transportation expenses of these logistics companies. All of the logistics companies used by us are Independent Third Parties. We did not experience any material loss in the delivery of our products during the three years ended December 31, 2009 and the six months ended June 30, 2010.

We utilize our management information systems to inspect and monitor shipments to the retail outlets. These systems facilitate the timely and accurate delivery of shipments and the accurate accounting and balancing of inventory among the retail outlets. We typically require an average of three to four days to deliver the finished products from our central warehouse in Qingpu, Shanghai to the individual retail outlets. Once a delivery arrives at a retail outlet, the products are inspected and sorted and can be immediately placed on the selling floor by the retail outlet personnel. Due to our distribution system that can support rapid merchandise replenishment, we have been able to reduce the amount of inventory that is carried in our retail outlets.

QUALITY CONTROL

We believe that our commitment to quality control is one of the principal factors contributing to our success. We have established a strict quality control system and a set of quality standards. All of our safety standards for the inspection of our products are based on relevant national standards and industry standards, such as GB18401-2003 (national general safety technical code for textile products), and are updated according to any changes of such national and industry standards. We have obtained the Accrediting Certificate of Product Adopting International Standard and Abroad Advanced Standard.

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Our quality control process starts early in the design and development stage when we consider the functionality and quality of materials to be used for manufacturing. Once production specifications of final designs are provided to our OEMs and ODMs, detailed specifications and requirements in respect of production, inspection and packaging are also provided. After receiving the production specifications, the OEMs and ODMs first produce product samples which will be reviewed by our design staff before mass production and may be subject to modifications, if necessary. Mass production by our OEMs and ODMs will only commence upon our approval. At each stage of the manufacturing process, we arrange for our quality control staff members to conduct on-site inspections of all semi-finished components at the production facilities of our OEMs and ODMs. After the manufacturing process, we will engage third-party inspection institutions to conduct sample tests and/or chemical tests, as well as quality inspections, against the finished products manufactured by our OEMs and ODMs to assess their quality and functionality before they are delivered to us. Upon the issuance of inspection report by such inspection institution, the finished products shall be delivered to our warehouse, and our design staff and quality control staff will also conduct random sample tests before admission to the warehouse. For defective products, our procurement staff would arrange with the relevant OEMs or ODMs for repair or return, and any repaired product would be inspected again through the above process. Our Directors confirm that there were no material product recalls, major complaints against our products, or any material amount of sales return during the Track Record Period and as at the Latest Practicable Date.

We comply with relevant PRC consumer protection laws with respect to policies on the return of merchandise. Our sales team is also trained to deal with any complaints that may arise from customers, including the verification of any alleged defects in the merchandise.

COMPETITION

The PRC's children's product industry is fragmented, but mid to high end children's product market is comparatively concentrated. The demand for mid to high end children's products has been growing steadily in recent years, in line with economic growth in the PRC. We face competition from several international and domestic brands in our regional markets. For a description of some of the risks associated with the competition we face, see "Risk Factors—Risks Relating to the Children's Product Industry—We operate in a very competitive market and the intense competition we face may result in a decline in our market share and lower profit margins."

EMPLOYEES

As of June 30, 2010, we had a total of 1,282 employees in the PRC and non-PRC regions, including 819 full time employees and 463 dispatched employees dispatched to us from third party labor dispatch companies. As confirmed by our PRC legal advisers, Haiwen & Partners, there is no employment relationship between the 463 dispatched employees and us, and they are not deemed as our employees under PRC laws. The following table shows a breakdown of our employees by department as of June 30, 2010:

	<u>Number of Employees</u>		<u>Percentage of total employees (%)</u>
	<u>Full-time Employees</u>	<u>Dispatched Employees</u>	
Management and administration, finance and quality control	97	0	7.6
Procurement, logistics and enterprise planning.	98	0	7.6
Product design and development	55	0	4.3
Sales and marketing	569	463	80.5
Total	<u>819</u>	<u>463</u>	<u>100.0</u>

Welfare contributions

Pursuant to applicable PRC laws and regulations, we are required to contribute to various social insurance plans such as pension contribution plans, medical insurance plans, work-related injury insurance plans, maternity insurance plans and unemployment insurance plans, as well as housing accumulation funds for our employees in the PRC.

Out of the 1,282 employees as of June 30, 2010, 463 of them were dispatched to us from third party labor dispatch companies. These 463 dispatched employees were mainly salespersons of our retail outlets. Under the contracts with such third-party labor dispatch companies, we are required to pay the service and other fees to such third-party labor dispatch companies, and such third-party labor dispatch companies are obligated to pay the salaries and contribute to the statutory social insurance plans and housing accumulation funds for the dispatched employees. Our PRC legal advisers, Haiwen & Partners, have advised us that the applicable PRC labor laws, including the PRC Labor Contract Law, permit an entity to use employees dispatched by third party labor dispatch companies, and the labor dispatch arrangement, as well as the contracts between third-party labor dispatch companies and us, are legal and valid under applicable PRC laws and regulations including the PRC Labor Contract Law. Out of the remaining 819 employees employed by us, 44 were engaged after their retirement or whose statutory social insurance contribution accounts and housing accumulation funds contribution accounts are retained with their former employers and, as a result, according to applicable PRC laws and regulations, we do not need to contribute to the statutory social insurance plans and housing accumulation funds for them. In addition, according to local rules and regulations of Shanghai municipality, for 234 employees who signed labor contracts with us before July 1, 2009 and whose residence registrations are in provinces outside of Shanghai, we should contribute to the Comprehensive Insurance Plans for Migrant Labors (外來從業人員綜合保險) for them rather than the urban social insurance plans within the term of the labor contracts we signed with them prior to July 1, 2009. For 217 employees who own agricultural residence registrations outside of Shanghai, we are not obligated to contribute to their housing accumulation funds. As confirmed by our PRC legal advisers, Haiwen & Partners, we complied with all the statutory social insurance and housing accumulation funds contribution obligations applicable to us pursuant to the relevant PRC labor and social welfare laws and regulations during the Track Record Period.

Remuneration

We incurred staff costs of approximately RMB35.4 million, RMB22.1 million, RMB21.4 million and RMB21.1 million for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively, representing 16.7%, 6.8%, 3.4% and 3.6%, respectively, of our revenue for those periods.

We review the performance of our employees annually, the results of which are used in his or her annual salary review and promotion appraisal. In order to attract and retain valuable employees and remain competitive in the labor market, we also conduct research on the remuneration packages that are offered by other companies in the same industry.

We have a set of complete and result-oriented incentive plans for all sales staff of our self-managed retail outlets. For instance, at the end of each month, sales staff who achieve the assigned sales target will be given a certain amount as bonus. In addition, we also select “Super Boshiwa Fighter” quarterly and annually and offer “Award of Excellence” based on the work performance and sales record of our staff and retail outlet managers, and the winner will receive monetary bonus and certificates of honor. We also organize “Boshiwa Family Day” for our retail outlet managers and their families in appreciation of their hard work.

We reward our senior management with annual bonuses based on various performance criteria. Our senior management are also entitled to participate in our employee share option scheme, details of

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which are more fully set out in Appendix VII to this prospectus. We believe that by offering our key employees a shareholding stake in us, we are aligning their interests with that of ours, thereby providing our key employees with additional incentives to improve our performance.

We consider our relationship with our employees to be good. We have not experienced any strikes, work stoppages or significant labor disputes in the past and have not experienced any significant difficulties in recruiting or retaining qualified staff.

Training

We are committed to employee development and have implemented various programs for the development of our employees. All our newly recruited employees are required to participate in training programs to learn basic information about us and the skills needed in his or her particular job. Meanwhile, we place particular importance on the training of our sales personnel. We believe that such training equips them with skills and knowledge to provide uniform and better service to our customers.

INTELLECTUAL PROPERTY RIGHTS

We rely on various intellectual property laws, especially trademark laws, to protect our proprietary rights. Details of our intellectual property rights are more particularly set out under the paragraph headed “Intellectual Property Rights of Our Group” in Appendix VI to this prospectus.

We recognize the importance of protecting and enforcing intellectual property rights. As of the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. Besides, as part of our measures in selecting our suppliers, we will review and verify their ownership of the relevant intellectual property rights by requiring our suppliers to submit to us copies of the relevant intellectual property documents relating to their products, including but not limited to trademarks and trade names registration documents. In addition, we generally require our suppliers to bear all liabilities relating to infringements of third parties’ intellectual properties in respect of the products supplied to us by them. Further, if our distributors or authorized third-party retailers infringe third parties’ intellectual property rights, unless such infringement is caused by the products supplied by us or is otherwise attributable to us, we are of the view that our distributors or authorized third-party retailers shall bear the legal liabilities by themselves and we will not be held jointly and severally liable for such infringement. To the best knowledge of the Directors, we have not infringed any other third party’s intellectual property rights during the Track Record Period which would have a material adverse impact to our operation and financial position. As of the Latest Practicable Date, we were also not aware of any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

PROPERTIES

Self-owned properties

As at June 30, 2010, we occupied three parcels of land, with a total site area of 8,619 sq.m., and a total gross floor area of 20,015.02 sq.m. of buildings on these parcels, all of which are situated in the PRC. Except one property is currently leased to a third-party hospital, other properties are for our office use.

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Our PRC legal advisers have confirmed that we hold valid real estate title certificates with respect to all of our land and buildings and thus we own the rights to occupy, use, benefit from and dispose of all these properties.

Leased properties

As at June 30, 2010, we also have leased 16 properties, with an aggregate gross floor area of approximately 18,101.62 sq.m. in the PRC. Out of these leased properties, one is a warehouse located in Shanghai and is used for the storage of our products, another is for office use by Shanghai Desheng, and the remaining are all used as our retail premises.

Leased warehouse and leased office

For the warehouse of 4,690 sq.m. and the office unit of 5 sq.m., the lessors have provided the real estate title certificates and the evidence indicating the owner's agreement to the lease if applicable. Thus, our PRC legal advisers, Haiwen & Partners, are of the view that the lessors of such properties have legal rights to lease the relevant properties to us and our leasehold interests under such lease agreements are protected by PRC laws and regulations.

Leased retail premises

The lessors of 13 of our leased properties have provided full and complete real estate title certificates for the properties with an aggregate gross floor area of approximately 12,606.62 sq.m., accounting for 94% of the aggregate gross floor area of all leased retail premises. The lessor has not provided any title documents for the remaining property with a gross floor area of approximately 800 sq.m., accounting for approximately 6% of the aggregate gross floor area of all leased retail premises. Details of these properties are as follows:

- Properties with an aggregate gross floor area of approximately 12,606.62 sq.m. For such properties, the lessors have provided the real estate title certificates, evidence showing the owners' title to the relevant properties and/or evidence indicating the owners' agreement to the lease. Our PRC legal advisers, Haiwen & Partners, have confirmed that the relevant lease agreements are valid and our leasehold interests under these lease agreements are protected by PRC laws and regulations.
- The property with a gross floor area of approximately 800 sq.m. The lessor has not provided the real property title certificate for such property. Our PRC legal advisers, Haiwen & Partners, are of the view that there exists uncertainties as to whether such lease agreement is valid and whether our leasehold interests under such lease agreement could be protected under the PRC laws or not.

As confirmed by our PRC legal advisers, Haiwen & Partners, we will not be subject to any legal liabilities or penalties for using the above-mentioned leased property without proper title certificate. However, we may be required to cease occupation and usage of such leased property, in which case we will have to relocate the retail facilities in such retail premise. If we are required to vacate such property, our Directors estimate that additional costs of approximately RMB493,000 may be incurred, including relocation expenses and the expected loss of profits of approximately RMB53,000, and it may take up to approximately one month to relocate the operations from the retail premise. Our Directors confirm that such defective property is not crucial to our business and operations for the following reasons: (a) suitable property in appropriate areas could be identified for relocation, if needed, and (b) we have just commenced our retail business in such premise since 2010

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and as for the six months ended June 30, 2010, the sales revenue from such retail outlet with defective title only accounted for less than 0.01% of our total revenue for the same period.

In addition, none of our lease agreements has been duly registered with the relevant government authorities so far. As advised by our PRC legal advisers, Haiwen & Partners, though the Law of the PRC on Administration of Urban Real Estate (中華人民共和國城市房地產管理法) amended as of August 27, 2009 requires that lease agreements of real estate properties shall be registered with relevant real estate government authorities, it does not specify that the validity, legality and enforceability of such agreements are subject to such registration, and pursuant to the Supreme People's Court's interpretation of the PRC Contract Law No. 1 promulgated as of December 19, 1999, the non-registration of these lease agreements would not affect the validity of such lease agreements. Further, as advised by our PRC legal advisers, Haiwen & Partners, our PRC subsidiaries, as lessees to the relevant lease agreements, will not be subject to any administrative penalty as a result of the non-registration of the lease agreements, except for two of our leased retail premises which are located in Nanjing city and Qingdao city respectively. For the leased property in Nanjing, pursuant to the Administrative Measures on Lease of Real Property promulgated by Nanjing Municipal People's Government on September 10, 2004, the relevant government authorities may impose on us a fine ranging from RMB1,000 to RMB10,000 for the non-registration of the lease agreement. For the leased property in Qingdao, pursuant to the Administrative Measures on Urban Private Real Property promulgated by the Standing Committee of the People's Congress of Qingdao City on March 25, 1991 and as amended on May 16, 2002, the relevant government authorities may also impose on us a fine ranging from RMB50 to RMB100 for such non-registration.

In the future, we will also put in place a policy which involves checking the title certificates of the relevant property before entering into new lease arrangements. If the lessor fails to produce proof of proper title but the management decides that we should nevertheless lease the relevant property (because the terms are favorable or the property is at a prime location), we may still enter into such lease but will continue to liaise with the landlord with a view to rectifying any defects in title. However, we will, prior to entering into such lease, conduct a cost-benefit analysis to compare the relevant expenses and loss of profits involved in a possible relocation with the benefit (possibly arising from capturing more revenue in a prime location or lower costs because of favorable terms) that may arise from leasing such property. If the benefits outweigh the costs, we may still lease such property.

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations, which include the Environmental Protection Law of the PRC, Law of the PRC on the Prevention and Control of Water Pollution, Law of the PRC on the Prevention and Control of Atmospheric Pollution, Law of the PRC on the Prevention and Control of Pollution From Environmental Noise and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge.

Though our Directors have confirmed that our business operation does not involve substantial creation of pollutants and our operation is not subject to any material environmental risk as we have disposed all of our production facilities in 2008, we still consider the protection of the environment to be important and to ensure our compliance with all applicable environmental laws and regulations, we have established an environmental health and safety committee, the duties of which include overseeing our compliance with the relevant PRC laws and regulations in connection with environment protection, improving environmental condition and work safety condition of our work space. Mr. Zhong is the head of this committee and the heads of all of our departments are also members of this committee. We will also continue to ensure compliance with applicable environmental laws and regulations by

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(i) providing relevant training to our staff (including but not limited to providing training to our Directors in respect of the compliance with PRC environmental laws and regulations); (ii) enforcing internal rules on environmental protection; and (iii) immediately reporting to and coordinating with competent authorities in the event that any incident or non-compliance arises.

We have also made continuous efforts to monitor the compliance of the relevant PRC environmental laws and regulations by our OEMs and ODMs. For instance, we normally require our OEMs and ODMs to obtain certificates and accreditations in relation to environmental protection and occupation health such as ISO quality management system certificate, ISO environmental management system certificates and occupational health and safety management system certificates, or written undertakings from our OEMs and ODMs that they will comply with the relevant PRC environmental laws and regulations. We also arrange our quality control staff to conduct routine on-site inspections of our OEMs and ODMs from time to time to monitor their working environment and their compliance of the relevant PRC environmental laws and regulations.

INSURANCE

We are not required under PRC law to maintain, and we do not maintain, any product liability insurance. We believe that it is not the normal industry practice in China to maintain such insurance.

We carry insurance covering risks including loss and theft of, and damage to, property (such as our fixed assets and inventories in all our retail outlets and warehouses). We believe that our insurance coverage is adequate for our operations and as of June 30, 2010, we had not made nor been the subject of any material insurance claims.

LEGAL COMPLIANCE AND PROCEEDINGS

As of the Latest Practicable Date, we were not involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

Except for certain regulatory non-compliances as disclosed below, our PRC legal advisers, Haiwen & Partners, and our Directors have confirmed that we (including Shanghai Desheng) have complied with applicable PRC laws and regulations in all material aspects, and have obtained all material licenses, approvals, permits and certificates from appropriate regulatory authorities for our business operations in the PRC.

MOFCOM requirements on online sales

Pursuant to the Measures on the Administration of Foreign Investment in Commercial Sector (《外商投資商業領域管理辦法》) promulgated by the MOFCOM on April 16, 2004, a foreign invested enterprise or an enterprise established by a foreign invested enterprise engaging in the retail business other than through physical stores, such as retail of goods through either third-party websites or self-operated websites, shall obtain the MOFCOM's approval regarding the related business scope. However, pursuant to the MOFCOM Notice issued on August 19, 2010, from the date of this notice, foreign invested enterprises which have been approved to conduct retail business may engage in retail business via Internet websites directly without further need to apply for a separate approval from the MOFCOM or its local counterparts regarding retail business via Internet websites.

Shanghai Boshiwa and Boshiwa Enterprise conducted online sales business in China through online stores set up on third-party websites before June 28, 2010, but neither Shanghai Boshiwa nor

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Boshiwa Enterprise had obtained the MOFCOM's approval. As such, as advised by our PRC legal advisers, Haiwen & Partners, each of Shanghai Boshiwa and Boshiwa Enterprise may be subject to penalties including prohibition of illegal behaviors, forfeiture of illegal gains and a fine up to an amount of RMB500,000.

However, as the total revenue derived from such online sales was not material to our total revenue during the Track Record Period, we do not believe that our business operations and financial position would be materially and adversely affected by such non-compliance. Besides, as the MOFCOM's approval was required for a foreign invested enterprise or an enterprise established by a foreign invested enterprise to carry out online sales and an application for such approval should be made to the MOFCOM through its provincial counterparts, we have disclosed the above non-compliance to the Shanghai Commerce Committee (上海市商務委員會), which is the provincial counterpart of the MOFCOM in Shanghai. As of the Latest Practicable Date, we had not received any notification on penalty from the Shanghai Commerce Committee or the MOFCOM. We ceased such non-compliant online sales business by Shanghai Boshiwa and Boshiwa Enterprise on June 28, 2010.

We resumed our online sales business in the PRC by Boshiwa Enterprise through third-party websites in September 2010 after the introduction of the MOFCOM Notice on August 19, 2010. In addition, pursuant to the MOFCOM Notice issued on August 19, 2010, a foreign invested enterprise may engage in the online sales business through its own Internet website if it has made an ICP filing with the relevant provincial counterparts of the MIIT and no ICP license would be required. As advised by our PRC legal advisers, Haiwen & Partners, as the MIIT, rather than the MOFCOM, is the ministry supervising the value-added telecommunications services industry in China, it is unclear whether the MIIT will affirm the MOFCOM's position. As of the Latest Practicable Date, the MIIT has not publicly announced its position. Given that the MOFCOM Notice was issued very recently, it remains unclear how this notice may be implemented in practice by relevant authorities. Currently, we plan to maintain the contractual arrangements under the Structure Contracts with Shanghai Desheng and its shareholder for the time being and to conduct our online sales business through Shanghai Desheng and through its self-owned websites upon the granting of the ICP license by Shanghai Communications Administration to Shanghai Desheng and completion of the registration formalities by Shanghai Desheng to include "Internet information services" into its business scope, which are expected to be obtained and completed by the end of 2010. Before Shanghai Desheng obtaining the ICP license and completing the aforementioned registration formalities, we will not conduct our online sales business through Shanghai Desheng through its self-owned websites. As advised by our PRC legal advisers, Haiwen & Partners, pursuant to the MOFCOM Notice issued on August 19, 2010, from the date of this notice, it is legal for Boshiwa Enterprise to conduct the online sales business through third-party websites, and subject to the disclosure in the paragraph headed "We rely on a series of Structure Contracts to conduct our online sales business in the PRC" in the "Risk Factors" section of this prospectus, it is legal for us to conduct the online sales business through Shanghai Desheng and through its self-owned websites by way of the contractual arrangements under the Structure Contracts entered into with Shanghai Desheng and its shareholder. Further, we will closely follow any regulatory developments and evaluate the opportunities allowed under the MOFCOM Notice for Shanghai Boshiwa or Boshiwa Enterprise to engage in the retail business via its own Internet websites directly in the future. We undertake to the Stock Exchange that Shanghai Boshiwa will exercise the option to acquire from Mr. Zhong all or part of his equity interest of Shanghai Desheng, to the extent permitted under the PRC law.

As advised by our PRC legal advisers, Haiwen & Partners, a commercial operator of Internet information services shall obtain the ICP license from the MIIT or its provincial counterpart. With regard to the online sales business conducted by Shanghai Boshiwa and Boshiwa Enterprise through third-party websites by setting up online stores at such third-party websites before June 28, 2010, it

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was the operators of the third-party websites that would be considered as operators of Internet information services and therefore they had to obtain the ICP license, and Shanghai Boshiwa and Boshiwa Enterprise, as the users, did not need to obtain the ICP license.

Lending between non-financial enterprises

According to the Measures on Banning Illegal Financial Institutions and Illegal Financial Business (《非法金融機構和非法金融業務活動取締辦法》) issued by the State Council of the PRC on July 13, 1998 and the General Rules of Lending (《貸款通則》) issued by the People's Bank of China (the "PBOC") on June 28, 1996, non-financial enterprises are not allowed to extend loans to each other.

During the Track Record Period, Shanghai Boshiwa extended loans to third-party suppliers and borrowed loans from third-party enterprises, which, as advised by our PRC legal advisers, Haiwen & Partners, are not in compliance with the above-mentioned PRC regulations. Our extended loans were unsecured loans and had a fixed interest rate of 5.4% per year with maturity periods not exceeding three years. These loans were made in 2009 to certain long-term suppliers, all of whom were our OEMs or ODMs and Independent Third Parties, and with whom we intended to continue our relationships. As such, Shanghai Boshiwa did not collect interests on such loans. Such loans were made by us to these suppliers to improve their working capital condition for prepayments of raw materials and negotiation of prices and payment terms. In addition, we borrowed two loans from Shanghai King Lion Co., Ltd., which is controlled by Mr. Wang Shi Ming, one of the directors of Shanghai Boshiwa, in an aggregate amount of RMB35,000,000 in 2008. These two loans were unsecured loans with a fixed interest rate of 8% per annum and a maturity period not exceeding one year.

As advised by our PRC legal advisers, Haiwen & Partners, with regard to extending loans by Shanghai Boshiwa to third-party suppliers, the related loan agreements may be declared invalid by the PRC courts, and we may be subject to penalties imposed by the PBOC, including forfeiture of the interests collected and a fine up to 5 times of such interests; or if no interests are collected, a fine ranging from RMB100,000 to RMB500,000 may be imposed, but rights to repayment of the principal of the loans shall not be affected. Even though our loan agreements with our suppliers provided for an annual interest rate of 5.4%, we did not actually collect any interests. As a result, our PRC legal advisers, Haiwen & Partners, have confirmed that, for the loans we extended, we may be subject to a penalty in the maximum amount of RMB500,000. With regard to granting of loans by third-party enterprises to us, the PRC court may determine relevant loan agreements as invalid, and further impose on us a fine equal to the corresponding bank loan interests, which are in the aggregate amount of RMB390,313, in case there are disputes relating to the loans to be brought to the PRC court.

However, as all of our loan receivables and payables under these agreements had been settled in full as of June 30, 2010 and February 28, 2009, respectively, our Company is of the view that our business operation and financial position would not be materially and adversely affected by such non-compliance. In addition, our Company also confirms that our PRC subsidiaries will not extend any loans to or receive any loans from third-party non-financial enterprises in the future.

Approvals relating to our wholesale and retail business

Pursuant to the Measures on the Administration of Foreign Investment in Commercial Sector (《外商投資商業領域管理辦法》) promulgated by the MOFCOM on April 16, 2004 and related subsequent rules promulgated by the MOFCOM, it is subject to the approval of the MOFCOM or the provincial counterparts of the MOFCOM for a foreign invested enterprise or an enterprise established by a foreign invested enterprise to engage in the wholesale and retail business, as well as to open retail stores.

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Shanghai Boshiwa opened retail stores without approval from the Shanghai Commerce Committee (上海市商務委員會), the provincial counterpart of the MOFCOM for Shanghai municipality. In addition, Shanghai Boshiwa conducted wholesale and retail business of third parties' products before June 6, 2008 and February 17, 2009, respectively, without the approval of the Shanghai Commerce Committee and beyond its then approved business scope as set out in its business license. Besides, Boshiwa Enterprise also conducted wholesale and retail business and opened retail stores before June 2010 without approval from the Shanghai Commerce Committee.

However, Shanghai Boshiwa has stopped the operation of the retail stores previously opened by it without approval from the Shanghai Commerce Committee. Shanghai Boshiwa has also obtained the approvals from the Shanghai Commerce Committee (or its predecessor, the Shanghai Foreign Investments Working Committee) dated March 25, 2008 and November 21, 2008 regarding wholesale and retail business of third parties' products, respectively, and obtained the business license with the correspondingly revised business scope on June 6, 2008 and February 17, 2009 respectively. In addition, we have disclosed all of the above-mentioned non-compliances to the Shanghai Commerce Committee and applied for its approval as to Boshiwa Enterprise's engagement in the wholesale and retail business and opening of the retail stores operated by Boshiwa Enterprise, and received an approval from the Shanghai Commerce Committee on June 24, 2010, which approved our application. As confirmed by our PRC legal advisers, Haiwen & Partners, the Shanghai Commerce Committee is the competent authority to grant such approval and by way of such approval, the above non-compliances have been rectified and Shanghai Boshiwa and Boshiwa Enterprise are now allowed to conduct wholesale and retail business and Boshiwa Enterprise is now allowed to operate the retail stores currently operated by it.

Further, we have disclosed the above non-compliances to the Shanghai Pudong New District Administration for Industry and Commerce and the Shanghai Administration for Industry and Commerce, which are the competent registration authorities in charge of Boshiwa Enterprise and Shanghai Boshiwa, respectively. These authorities did not impose any penalty on us. In addition, these authorities confirmed that since the establishment of Boshiwa Enterprise and Shanghai Boshiwa, there had not been any record of administrative penalties on Boshiwa Enterprise or Shanghai Boshiwa attributable to illegal acts in breach of industry and commerce administration laws and regulations. Taking into account the above factors, our PRC legal advisers, Haiwen & Partners, have advised that they have no reason to believe that the relevant government authorities will impose any penalties on us relating to the above non-compliances.

Thus, we are of the view that our business operations and financial position would not be materially and adversely affected by such non-compliances. Our Company also confirms that our PRC subsidiaries will comply with relevant procedures under the PRC laws when opening retail outlets in the future.

Tax registrations of the branches of our PRC subsidiaries

Two branches of Shanghai Boshiwa and nine branches of Boshiwa Enterprise have not obtained proper tax registration certificates due to our misinterpretation of the relevant PRC tax laws and regulations. As such, as advised by our PRC legal advisers, Haiwen & Partners, each branch is likely to be subject to penalties including being ordered to rectify within a specified period of time and a fine for up to RMB2,000; if the circumstances are considered by the relevant PRC tax bureaus as serious, a fine for between RMB2,000 and RMB10,000 would be imposed; if such branch fails to rectify within a specified time period, its business license may be revoked upon the request by the relevant tax bureau to the competent administration for industry and commerce. Based on the above, the maximum penalty arising from such non-compliance would be fines in the aggregate amount of

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RMB110,000, and, if we fail to rectify within a specified time period, revocation of the business licenses of these branches.

Shanghai Boshiwa and Boshiwa Enterprise have subsequently applied for the tax registration certificates for those branches and are expected to obtain the tax registration certificates in September 2010. Thus, we are of the view that our past results of operations would not be materially and adversely affected by such non-compliances. Although Shanghai Boshiwa and Boshiwa Enterprise did not obtain separate tax registration certificates for their respective branches, Shanghai Boshiwa and Boshiwa Enterprise have reported and paid the taxes leviable on the revenue generated by their branches together with the revenue generated by their headquarters. Our PRC legal advisers, Haiwen & Partners, have advised that pursuant to their consultation with the relevant Shanghai tax bureaus, it is permissible for enterprises established in Shanghai, such as Shanghai Boshiwa and Boshiwa Enterprise, to report and pay the taxes leviable on the revenue generated by their branches located in Shanghai together with the revenue generated by their headquarters, and therefore, our PRC legal advisers, Haiwen & Partners, are of the view that the late tax registration of the branches of Shanghai Boshiwa and Boshiwa Enterprise should have no impact on our past tax liabilities. We intend to complete the relevant tax registrations and obtain the relevant tax registration certificates for the branches to be established in the future in accordance with relevant PRC laws.

In this respect, we will establish a compliance team within our Group, led by Mr. Lv Yi Hao, our vice president and joint company secretary, to supervise our regulatory compliance. In addition, we will appoint PRC legal advisers before the Listing Date to act as our regular legal counsel going forward. Upon appointment of such PRC legal counsel, we will seek legal advice relating to PRC regulatory compliance matters from them where necessary during the course of our business operations.

No provision has been made for any potential liabilities or penalties in respect of the non-compliances as set out above for the following reasons:

- (a) the probability that the relevant government authorities taking action against us in respect of the above non-compliance is considered to be minimal, and that the non-compliances are being or have been rectified by our Company; and
- (b) no actions including imposition of penalties or fines have been taken by the relevant government authorities against us in respect of the above non-compliances, and that the relevant amount of possible penalties or fines in respect of the above non-compliances have been disclosed and our Company is of the view the relevant amount is trivial as compared to financial position of our Group as a whole.