
APPENDIX IC — ACCOUNTANTS' REPORT

The following is the text of a report on our major operating subsidiary, Shanghai Rongchen Boshiwa (Group) Co., Ltd. for the three years ended December 31, 2009 and the six months ended June 30, 2010, prepared for information propose, received from the auditors and reporting accountants, Deloitte Touche Tohmatsu.

Deloitte.
德勤

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September 16, 2010

The Directors
Boshiwa International Holding Limited
UBS AG, Hong Kong Branch
Credit Suisse (Hong Kong) Limited
BOCOM International (Asia) Limited

Dear Sirs,

We set out below our report on the financial information (the “Shanghai Boshiwa Financial Information”) relating to Shanghai Rongchen Boshiwa (Group) Co., Ltd. (the “Shanghai Boshiwa”) and its subsidiaries (hereinafter collectively referred to as the “Shanghai Boshiwa Group”) for each of the three years ended December 31, 2009 and the six months ended June 30, 2010 (the “Reporting Periods”) for inclusion in the prospectus of Boshiwa International Holding Limited (the “Company”) dated September 16, 2010 (the “Prospectus”) in connection with the initial public offering of the shares of the Company on The Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Shanghai Boshiwa was established in Shanghai, the People’s Republic of China (the “PRC”) by Shanghai Rongchen Group Limited (“Shanghai Rongchen Group”) and Shanghai Shangshi Asset Management Limited (“Shanghai Shangshi”) as a sino-foreign equity joint venture on July 30, 1997 with an operating period of 30 years. After a series of transfers of equity interests, as of January 1, 2007, Shanghai Boshiwa was owned by Shanghai Haibo Limited (“Haibo”), Shanghai Shangshi and Zhongrong International Trust Investment Limited (“Zhongrong Trust”) which had equity interests of 50%, 40% and 10% therein, respectively. On July 31, 2007, Zhongrong Trust transferred its equity interest of 10% in Shanghai Boshiwa to Shanghai Zhixuan Garment Limited (“Shanghai Zhixuan”). On January 15, 2008, May 29, 2008 and July 18, 2008, Shanghai Shangshi, Haibo and Shanghai Zhixuan entered into agreements with Great Dragon (Asia Pacific) Limited (“Great Dragon”) to transfer their corresponding equity interests in Shanghai Boshiwa to Great Dragon separately. Great Dragon completed the acquisition of 90% equity interest from Shanghai Shangshi and Haibo on August 15, 2008, and of the remaining 10% equity interest from Shanghai Zhixuan on August 20, 2008.

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The direct and indirect interests in the subsidiaries held by Shanghai Boshiwa during the Reporting Periods and at the date of this report are as follows:

Name of company	Place and date of establishment and operation	Fully paid registered capital at the date of this report	Attributable/deemed equity interest held by the Company			At date of this report	Principal activities
			As at December 31,		As at June 30,		
			2007	2008	2009		
Boshiwa Enterprise Development Co., Ltd. ⁽¹⁾ 博士蛙（上海）企业发展有限公司 （“Boshiwa Enterprise”）	PRC March 24, 2009	RMB 10,000,000	N/A	N/A	100%	100%	100% Selling and marketing of children's products
Shanghai Rongchen Information & Consulting Co., Ltd. ⁽¹⁾ 上海荣臣信息咨询有限公司 （“Shanghai Rongchen”）	PRC September 6, 2004	RMB 1,000,000	96%	100%	100%	100%	Inactive
Shanghai Desheng Information Technology Limited ⁽²⁾ 上海得勝信息技術有限公司 （“Shanghai Desheng”）	PRC September 11, 2003	RMB 1,000,000	N/A	N/A	N/A	100%	100% Online sales business

The following companies were subsidiaries of the Shanghai Boshiwa Group from January 1, 2007 until their respective dates of disposals to third parties in 2008 (note 33 to Section E):

Name of subsidiary	Place and date of establishment and operation	Fully paid registered capital at the date of disposal	Principal activities
Directly held and disposed of:			
Shanghai Ronghua Textile Dyeing and Finishing Garment Limited ⁽³⁾ 上海榮華紡織染整制衣有限公司 （“Shanghai Ronghua”）	PRC September 12, 1991	US\$ 754,000	Textile knitting and dyeing services for medium and high-end market
Shanghai Rongli Textile Garment Limited ⁽³⁾ 上海榮麗紡織製衣服飾有限公司 （“Shanghai Rongli”）	PRC March 16, 1993	US\$ 1,680,000	Textile knitting and OEM services
Shanghai Rongchen Knitting Limited ⁽³⁾ 上海榮臣針織有限公司 （“Rongchen Knitting”）	PRC June 7, 2004	RMB 2,000,000	Textile knitting and OEM service
Shanghai Rongchen Motor Vehicle Driver Training Limited ⁽³⁾ 上海榮臣機動車駕駛員培訓有限公司 （“Driver Training”）	PRC January 28, 1994	RMB 17,000,000	Driver training services
Indirectly held and disposed of:			
Shanghai Rongbai Trading Limited ⁽⁴⁾ 上海榮佰貿易有限公司 （“Shanghai Rongbai”）	PRC March 27, 2007	RMB 1,000,000	Garment trading

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Notes:

- (1) Limited liability company wholly owned by Shanghai Boshiwa.
- (2) A limited liability company whose entire equity interest was acquired by the Company's chairman and chief executive officer, Mr. Zhong Zheng Yong on March 1, 2010. On June 28, 2010, through a series of arrangements entered between Shanghai Boshiwa and Mr. Zhong Zheng Yong (the "Structure Contracts" and further details are set out in note 1 of the section E), Shanghai Boshiwa obtained the control over, and the entire beneficial economic interest in Shanghai Desheng and accordingly, has accounted for Shanghai Desheng as a 100% owned subsidiary.
- (3) Limited liability company.
- (4) Limited liability company wholly owned by Rongchen Knitting.

Shanghai Boshiwa and its subsidiaries have adopted December 31 as their financial year end date.

The statutory financial statements of Shanghai Boshiwa and its subsidiaries for the year ended December 31, 2007 were audited by 立信會計師事務所有限公司 (Shu Lun Pan Certified Public Accountants Co., Ltd.), certified public accountants registered in the PRC. The statutory financial statements of Shanghai Boshiwa for the years ended December 31, 2008 and 2009 and the statutory financial statements of Boshiwa Enterprise for the year ended December 2009 were audited by Deloitte Touche Tohmatsu CPA Ltd., a firm of certified public accountants registered in the PRC and our affiliated firm in the PRC. The statutory financial statements of Shanghai Rongchen for the years ended December 31, 2008 and 2009 were audited by 上海中惠會計師事務所有限公司 (Shanghai Zhong Hui Certified Public Accountants Co., Ltd.), a firm of certified public accountants registered in the PRC. These statutory financial statements were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises registered in the PRC.

No audited financial statements have been prepared for Shanghai Boshiwa and its subsidiaries for the six months ended June 30, 2010 as there is no such statutory requirement.

For the purpose of this report, the directors of Shanghai Boshiwa have prepared consolidated financial statements of Shanghai Boshiwa and its subsidiaries for the Reporting Periods (the "Shanghai Boshiwa Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs"). We have carried out an independent audit on the Shanghai Boshiwa Underlying Financial Statements in accordance with International Standards on Auditing.

For the purpose of this report, we have examined the Shanghai Boshiwa Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Shanghai Boshiwa Financial Information for the Reporting Periods set out in this report has been prepared from the Shanghai Boshiwa Underlying Financial Statements. No adjustments were considered necessary to the Shanghai Boshiwa Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Shanghai Boshiwa Underlying Financial Statements are the responsibility of the directors of Shanghai Boshiwa who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Shanghai Boshiwa Financial Information set out in this report from the Shanghai Boshiwa Underlying Financial Statements, to form an independent opinion on the Shanghai Boshiwa Financial Information and to report our opinion to you.

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In our opinion, the Shanghai Boshiwa Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Shanghai Boshiwa Group as at December 31, 2007, 2008, 2009 and June 30, 2010 and of the consolidated results and consolidated cash flows of the Shanghai Boshiwa Group for the Reporting Periods.

The corresponding consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statement of changes in equity of the Shanghai Boshiwa Group for the six months ended June 30, 2009 together with the notes thereon have been extracted from the Shanghai Boshiwa Group's consolidated financial information for the same period (the "June 30, 2009 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 30, 2009 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review consisted principally of making enquiries of the Shanghai Boshiwa Group's management and applying analytical procedures to the June 30, 2009 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the June 30, 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 30, 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Shanghai Boshiwa Financial Information which conform with IFRSs.

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A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	At December 31,			At June 30,
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current Assets					
Property, plant and equipment	16	70,006	70,474	81,286	143,324
Prepayments for acquisition of property, plant and equipment	17	-	-	92,700	42,372
Prepayments for acquisition of computer software	17	-	-	24,150	24,150
Prepaid lease payments—non-current	18	3,263	6,669	6,411	6,281
Investment property	19	3,541	3,420	3,299	3,238
Intangible assets	20	10,469	10,469	10,469	10,469
Investment in associates	21	18,163	-	-	-
Loan receivables	22	-	-	38,610	-
Deferred tax assets	23	1,376	388	1,154	5,168
		<u>106,818</u>	<u>91,420</u>	<u>258,079</u>	<u>235,002</u>
Current Assets					
Inventories	24	89,690	89,287	148,786	224,391
Trade and other receivables	25	61,867	165,629	298,338	366,161
Prepaid lease payments—current	18	131	260	260	260
Amount due from an associate	26	3,019	-	-	-
Amount due from a shareholder	27	-	542	1,029	1,272
Pledged bank deposits	28	-	10,000	25,000	47,372
Bank balances and cash	28	27,750	22,921	62,273	109,534
		<u>182,457</u>	<u>288,639</u>	<u>535,686</u>	<u>748,990</u>
Current Liabilities					
Trade and other payables	29	47,970	33,992	115,104	91,021
Tax liabilities		2,474	17,812	39,153	47,773
Dividends payable		10,118	28,034	27,058	277,105
Short-term borrowings	30	50,850	114,895	191,200	160,000
Amount due to a related party	31	10,000	-	-	-
Amount due to intermediate holding company	27	-	-	-	3,291
		<u>121,412</u>	<u>194,733</u>	<u>372,515</u>	<u>579,190</u>
Net Current Assets		<u>61,045</u>	<u>93,906</u>	<u>163,171</u>	<u>169,800</u>
Total Assets Less Current Liabilities		<u>167,863</u>	<u>185,326</u>	<u>421,250</u>	<u>404,802</u>
Capital and Reserves					
Paid-in capital	32	99,463	99,463	208,758	345,307
Capital and other reserves		12,020	12,060	19,258	46,208
Retained earnings		39,677	73,803	193,234	13,287
Total equity attributable to owners of Shanghai Boshiwa		151,160	185,326	421,250	404,802
Non-controlling interests		16,703	-	-	-
Total Equity		<u>167,863</u>	<u>185,326</u>	<u>421,250</u>	<u>404,802</u>

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C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of Shanghai Boshiwa						
	Paid-in capital	Capital reserves	Statutory surplus reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	RMB'000 (note a)	RMB'000 (note b)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007	99,463	1,064	9,671	26,732	136,930	13,150	150,080
Profit and total comprehensive income for the year	-	-	-	14,230	14,230	3,553	17,783
Appropriation to statutory surplus reserve (note b)	-	-	1,285	(1,285)	-	-	-
At December 31, 2007	99,463	1,064	10,956	39,677	151,160	16,703	167,863
Profit and total comprehensive income for the year	-	-	-	67,193	67,193	(3,909)	63,284
Dividends	-	-	-	(33,067)	(33,067)	(4,201)	(37,268)
Acquisition of equity interests from minority shareholders (note a)	-	40	-	-	40	(40)	-
Disposal of subsidiaries	-	-	-	-	-	(8,553)	(8,553)
At December 31, 2008	99,463	1,104	10,956	73,803	185,326	-	185,326
Profit and total comprehensive income for the year	-	-	-	129,431	129,431	-	129,431
Capital contribution from owners of Shanghai Boshiwa	109,295	-	-	-	109,295	-	109,295
Appropriation to statutory surplus reserve (note b)	-	-	7,198	(7,198)	-	-	-
Dividends	-	-	-	(2,802)	(2,802)	-	(2,802)
At December 31, 2009	208,758	1,104	18,154	193,234	421,250	-	421,250
Profit and total comprehensive income for the period	-	-	-	146,182	146,182	-	146,182
Acquisition of a special purpose entity (note a)	-	868	-	-	868	-	868
Capital contribution from owners of Shanghai Boshiwa	136,549	-	-	-	136,549	-	136,549
Appropriation to statutory surplus reserve (note b)	-	-	26,082	(26,082)	-	-	-
Dividends	-	-	-	(300,047)	(300,047)	-	(300,047)
At June 30, 2010	<u>345,307</u>	<u>1,972</u>	<u>44,236</u>	<u>13,287</u>	<u>404,802</u>	<u>-</u>	<u>404,802</u>
For the six months ended June 30, 2009 (Unaudited)							
At January 1, 2009	99,463	1,104	10,956	73,803	185,326	-	185,326
Profit and total comprehensive income for the period	-	-	-	40,930	40,930	-	40,930
Capital contribution from owners of Shanghai Boshiwa	36,099	-	-	-	36,099	-	36,099
At June 30, 2009	<u>135,562</u>	<u>1,104</u>	<u>10,956</u>	<u>114,733</u>	<u>262,355</u>	<u>-</u>	<u>262,355</u>

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Notes:

(a) Capital reserves

Capital reserves as at December 31, 2007 represented the difference between the registered capital and the funds contributed by the shareholders of Shanghai Boshiwa at the time when Shanghai Boshiwa was established.

On September 16, 2008, Shanghai Boshiwa acquired 10% equity interest in Shanghai Rongchen from Shanghai Rongli, a subsidiary in which Shanghai Boshiwa has 60% equity interest. The difference between the consideration and attributable share of net assets acquired is dealt with in capital reserve.

On June 28, 2010, Shanghai Boshiwa obtained the control over and the entire beneficial economic interest in Shanghai Desheng through Structure Contracts. The equity of Shanghai Desheng was accounted for as capital reserve of Shanghai Boshiwa.

(b) Statutory surplus reserve

As stipulated by the relevant laws and regulations for enterprises in the PRC, Shanghai Boshiwa and its PRC subsidiaries are required to maintain a statutory surplus reserve fund which is non-distributable. Appropriations to such reserve is made at no less than 10% out of net profit after taxation of the statutory financial statements of Shanghai Boshiwa and its PRC subsidiaries while the amounts and allocation basis are decided by each board of directors annually. The statutory surplus reserve fund can be used to make up prior years' losses, if any, and can be applied in conversion into capital by means of capitalization issue.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities					
Profit before tax	23,389	83,436	172,893	54,604	194,946
Adjustments for:					
Finance cost	2,972	6,902	5,765	2,800	4,634
Investment income	(626)	(13,901)	(611)	(308)	(330)
Loss on disposal of property, plant and equipment	162	32	184	-	-
Impairment loss recognized in respect of trade and other receivables	1,751	16	2,003	837	-
Depreciation of property, plant and equipment and investment property	8,655	7,009	6,362	2,992	4,798
Release of prepaid lease payments	131	114	258	130	130
Write-down of inventories	206	2,357	62	-	344
Share of profits of associates	(2,632)	(1,727)	-	-	-
Operating cash flows before movements in working capital	34,008	84,238	186,916	61,055	204,522
(Increase) decrease in inventories	(22,583)	(64,911)	(59,561)	14,351	(75,949)
Increase in trade and other receivables	(21,751)	(38,537)	(177,307)	(100,236)	(66,955)
Increase in trade and other payables	4,103	14,208	81,112	6,522	14,527
Increase in amount due to intermediate holding company	-	-	-	-	3,291
Cash (used in) generated from operations	(6,223)	(5,002)	31,160	(18,308)	79,436
Interest paid	(2,972)	(6,902)	(5,765)	(2,800)	(4,634)
Income taxes paid	(5,018)	(4,855)	(22,887)	(20,665)	(44,158)
Net cash (used in) generated from operating activities	(14,213)	(16,759)	2,508	(41,773)	30,644

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	Notes	Year ended December 31,			Six months ended June 30,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Investing activities						
Interest received		99	72	41	27	38
Rentals received from investment properties		527	521	570	281	292
Proceeds from disposals of property, plant and equipment		3,221	339	331	-	-
Proceeds from disposal of subsidiaries	33	-	2,157	12,700	12,700	-
Proceeds from disposal of an associate		-	1,299	-	-	-
(Increase) decrease in pledged bank deposits		-	(10,000)	(15,000)	10,000	(22,372)
Advance of loan receivables		-	-	(38,610)	-	-
Payments and prepayments for acquisition of property, plant and equipment		(7,243)	(51,096)	(110,268)	(3,389)	(16,447)
Payment for prepaid lease payments		-	(5,197)	-	-	-
Payment for acquisition of computer software		-	-	(24,150)	-	-
Dividends received from associates		901	2,456	-	-	-
Increase in amount due from an associate		(1,287)	(2,336)	-	-	-
Repayment from an associate		-	5,355	-	-	-
Increase in amount due from a shareholder		-	(542)	(487)	(100)	(243)
Net cash (used in) generated from investing activities		<u>(3,782)</u>	<u>(56,972)</u>	<u>(174,873)</u>	<u>19,519</u>	<u>(38,732)</u>
Financing activities						
Proceeds from borrowings		49,850	158,805	241,700	28,500	158,470
Capital contributions from owners of Shanghai Boshiwa		-	-	109,295	36,099	136,549
Loans from related parties		10,000	43,746	-	-	-
Repayment of loans from related parties		-	(53,746)	-	-	-
Repayment of borrowings		(39,000)	(64,850)	(135,500)	(58,500)	(189,670)
Dividends paid to owners of Shanghai Boshiwa		(2,872)	(15,053)	(3,778)	-	(50,000)
Net cash generated from financing activities		<u>17,978</u>	<u>68,902</u>	<u>211,717</u>	<u>6,099</u>	<u>55,349</u>
(Decrease) increase in cash and cash equivalents		(17)	(4,829)	39,352	(16,155)	47,261
Cash and cash equivalents at beginning of the year/period		<u>27,767</u>	<u>27,750</u>	<u>22,921</u>	<u>22,921</u>	<u>62,273</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash		<u>27,750</u>	<u>22,921</u>	<u>62,273</u>	<u>6,766</u>	<u>109,534</u>

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Shanghai Boshiwa is a limited company incorporated in the PRC on July 30, 1997 with an operating period of 30 years. The address of the registered office is No. 550 San Men Road Shanghai, the PRC, and the principal place of business is No. 78 Tai Gu Road, Shanghai Waigaoqiao Free Trade Zone, the PRC. The Shanghai Boshiwa Group was initially formed to manufacture and sell children's apparel and accessory products under the Boshiwa brand, as well as provide OEM services and driver training services. After a business reorganization, the Shanghai Boshiwa Group discontinued its manufacturing and OEM operations and driver training services in 2008 and commenced on concentration in designing, sourcing and marketing of children's products.

On March 1, 2010, Mr. Zhong Zheng Yong, the Company's chairman and chief executive officer, acquired Shanghai Desheng, a limited liability company established in the PRC from two Chinese residents, to conduct online sales business in the PRC.

The existing PRC laws and regulations restrict foreign investors in business providing value added telecommunications services in the PRC. Shanghai Boshiwa and its subsidiaries cannot be granted with the operating license for value added telecommunication services ("ICP license").

Shanghai Boshiwa and Boshiwa Enterprise ceased online sales business on June 28, 2010. Through a series of structure contracts (the "Structure Contracts"), Shanghai Boshiwa will conduct online sales 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 or completed by the end of 2010.

Shanghai Boshiwa has concluded that it is appropriate to include Shanghai Desheng in its consolidated financial statements since June 28, 2010 notwithstanding the lack of equity ownership therein, due to Shanghai Boshiwa's effective control over Shanghai Desheng through Structure Contracts.

The key provisions of the Structure Contracts are as follows:

Exclusive Equity Transfer Call Agreement. Shanghai Boshiwa and Mr. Zhong Zheng Yong irrevocably agreed that, at Shanghai Boshiwa's sole discretion, Shanghai Boshiwa will be entitled to acquire all or part of the equity interest in Shanghai Desheng to the extent as permitted by the then effective PRC laws and regulations. Any considerations paid by Shanghai Boshiwa for such acquisition will be refunded to Shanghai Boshiwa by Mr. Zhong Zheng Yong. Mr. Zhong Zheng Yong has also agreed that he will not enter into any transactions that would substantially affect the assets, liabilities, equity or operations of Shanghai Desheng without Shanghai Boshiwa's prior written consent.

Exclusive Management Service and Consultancy Agreement. Shanghai Boshiwa agreed to provide Shanghai Desheng with management consulting and related services, and Shanghai Boshiwa is the exclusive provider of these services. In consideration for those services, Shanghai Desheng agrees to pay services fees to Shanghai Boshiwa, which represents substantially all of the economic benefits from Shanghai Desheng's operations.

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Equity Pledge Agreements. To secure the full performance of his obligations under the Exclusive Equity Transfer Call Agreement, Mr. Zhong Zheng Yong agreed to pledge all of his equity interests in Shanghai Desheng to Shanghai Boshiwa. In the event of a breach of any term in the above agreement by Mr. Zhong Zheng Yong, Shanghai Boshiwa will be entitled to enforce its pledge rights over such pledged equity interests to compensate for any and all losses suffered from such breach.

The directors of Shanghai Boshiwa, after consulting legal opinion, are of the view that the terms of the Structure Contracts have in substance enable Shanghai Boshiwa to obtain control over, and the entire beneficial economic interest in, Shanghai Desheng without getting formal legal equity interest in Shanghai Desheng.

Accordingly, Shanghai Desheng is accounted for as a subsidiary of Shanghai Boshiwa from June 28, 2010.

The Shanghai Boshiwa Financial Information is presented in Renminbi (“RMB”), the currency of the primary economic environment in which Shanghai Boshiwa and its subsidiaries operate (the functional currency of Shanghai Boshiwa and its subsidiaries).

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The financial information relating to the Shanghai Boshiwa Group for the Reporting Periods is presented to provide the investors with further information to assess the financial performance of the Shanghai Boshiwa Group.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Shanghai Boshiwa Financial Information for the Reporting Periods, the Shanghai Boshiwa Group has consistently applied International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”), amendments and the related Interpretations (“IFRICs”), which are effective for the accounting period beginning on January 1, 2010 except for IFRS 3 (revised 2008), which has been applied for business combination for which the acquisition date is on or after January 1, 2009 and IAS 27 (revised 2008) which has been applied for accounting period beginning on January 1, 2009.

At the date of this report, the following new and revised standards, amendments or interpretations have been issued which are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs May 2010 ⁽¹⁾
IAS 24 (Revised)	Related Party Disclosures ⁽⁴⁾
IAS 32 (Amendment)	Classification of Rights Issues ⁽²⁾
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters ⁽³⁾
IFRS 9	Financial Instruments ⁽⁵⁾
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁽⁴⁾
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ⁽³⁾

Notes:

- (1) Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate
- (2) Effective for annual periods beginning on or after February 1, 2010
- (3) Effective for annual periods beginning on or after July 1, 2010
- (4) Effective for annual periods beginning on or after January 1, 2011
- (5) Effective for annual periods beginning on or after January 1, 2013

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The Shanghai Boshiwa Group has not early adopted these new and revised standards, amendments or interpretations in the preparation of the Shanghai Boshiwa Financial Information.

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The standard requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Shanghai Boshiwa Group's financial assets.

The directors of Shanghai Boshiwa anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shanghai Boshiwa Financial Information has been prepared under the historical cost convention and in accordance with the accounting policies set out below which are in conformity with IFRSs. These policies have been consistently applied throughout the Reporting Periods.

In addition, the Shanghai Boshiwa Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Shanghai Boshiwa Financial Information incorporates the financial information of Shanghai Boshiwa and entities (including special purpose entities) controlled by Shanghai Boshiwa (its subsidiaries). Control is achieved where Shanghai Boshiwa has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Reporting Periods are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Shanghai Boshiwa Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Shanghai Boshiwa Group's equity therein. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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Changes in the Shanghai Boshiwa Group's ownership interests in existing subsidiary.

Changes in the Shanghai Boshiwa Group's ownership interest in a subsidiary that do not result in the Shanghai Boshiwa Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Shanghai Boshiwa Group's interests and the minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of Shanghai Boshiwa.

Investments in associates

An associate is an entity over which the Shanghai Boshiwa Group has significant influence and that is neither a subsidiary nor interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Shanghai Boshiwa Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Shanghai Boshiwa Group's share of the net assets of the associate, less any impairment in value of individual investment. The Shanghai Boshiwa Group's share of losses of an associate in excess of the Shanghai Boshiwa Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Shanghai Boshiwa Group's net investment in the associate) are recognized only to the extent that the Shanghai Boshiwa Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Shanghai Boshiwa Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Shanghai Boshiwa Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When a group entity transacts with an associate of the Shanghai Boshiwa Group, profits and losses are eliminated to the extent of the Shanghai Boshiwa Group's interest in the relevant associate.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

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Revenue recognition

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

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

Revenue from OEM and driver training services is recognized when the services are provided.

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

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

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

Leasing

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Shanghai Boshiwa Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

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The Shanghai Boshiwa Group as lessor

Rental income from operating leases is recognized in the consolidated statements of comprehensive income on a straight-line basis over the term of the relevant lease.

Prepaid lease payments

Prepaid lease payments represent payments for leasehold land and are amortized over the lease terms on a straight-line basis. Prepaid lease payments which are to be amortized in the next twelve months or less are classified as current assets.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual group entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded in the respective functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the year in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the year in which they are incurred.

Government grants

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

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Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

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

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

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to

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write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Intangible assets

Trademark

A trademark acquired separately and with indefinite useful life is carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Shanghai Boshiwa Group's financial assets are classified into loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis.

Loans and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including loan receivables, trade and other receivables, amount due

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from an associate, amount due from a shareholder, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Shanghai Boshiwa Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

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Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, dividends payable, short-term borrowings, amount due to a related party and amount due to intermediate holding company are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by Shanghai Boshiwa are recorded as the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Shanghai Boshiwa Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. If the Shanghai Boshiwa Group retains substantially all the risks and rewards of ownership of a transferred asset, the Shanghai Boshiwa Group continues to recognize the financial asset and recognized a collateralized borrowing for proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Shanghai Boshiwa Group's accounting policies, which are described in note 4, the directors of Shanghai Boshiwa are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Inventories

The Shanghai Boshiwa Group assesses periodically if the inventories have been suffered from any impairment in accordance with the accounting policy stated in note 4. The management would review the inventory levels, sales of inventory in the period and inventory composition at the end of each reporting period so as to determine whether allowance for obsolete and slow-moving inventories

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is required to be made. The management estimates the net realizable value for such inventories based on the past sales performance, any planned promotional activities and general consumer trends. If the actual selling prices of the inventories are less than expected, certain impairment loss may arise. In this regard, the management of Shanghai Boshiwa is satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving inventories has been provided for the Reporting Periods.

Trade and other receivables

Note 4 describes that trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired.

Significant management estimation is required in identifying doubtful debts and determining the recoverability of doubtful debts based on the aging analysis, customers' historical credit records and sales personnel's report on the recoverability according to their discussion with relevant customers.

Deferred tax assets

As at December 31, 2007, 2008, 2009 and June 30, 2010, a total deferred tax asset of RMB2,292,000, RMB1,370,000, RMB2,223,000 and RMB6,281,000 respectively in relation to write-down of inventories and doubtful debts, accrued payroll and other expenses, unrealized profits in inventories arising from inter-company transactions and tax losses has been recognized in the Shanghai Boshiwa Group's consolidated statement of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

Significant management estimation is required to determine the amount of deferred tax assets that cannot be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash generating units to which intangible assets have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate present value.

The carrying amount of intangible assets was RMB10,469,000 as at December 31, 2007, 2008 and 2009 and June 30, 2010 with no impairment loss was recognized during the Reporting Periods. Details of the impairment loss assessment are set out in note 20.

6. CAPITAL RISK MANAGEMENT

The Shanghai Boshiwa Group manages its capital to ensure that the Shanghai Boshiwa Group entities will be able to continue as a going concern while maximizing the return to equity holders through the optimization of the debt and equity balances. The Shanghai Boshiwa Group's overall strategy remains unchanged during the Reporting Periods.

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The capital structure of the Shanghai Boshiwa Group consists of short-term borrowings (net of cash and cash equivalents) and equity attributable to the owner of Shanghai Boshiwa, comprising paid-in capital, reserves and retained profits, as disclosed in the consolidated statements of financial position.

The management of the Shanghai Boshiwa Group reviews the capital structure regularly. The Shanghai Boshiwa Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through payment of dividends, new share issues as well as the raising of new borrowings or the redemption of existing debts.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>At December 31,</u>			<u>At</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>June 30,</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>2010</u>
Financial assets:				
Loan and receivables (including cash and cash equivalents)	86,766	195,276	405,654	476,857
Financial liabilities:				
Liabilities measured at amortized cost	115,774	172,514	307,456	508,213

Financial risk management objectives and policies

The Shanghai Boshiwa Group’s major financial instruments are loans and receivables (which includes loan receivables, trade and other receivables, amount due from an associate, amount due from a shareholder, pledged bank deposits and bank balances and cash), trade and other payables, dividends payable, short-term borrowings and amount due to a related party. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The management of Shanghai Boshiwa manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Shanghai Boshiwa Group’s overall strategy remains unchanged during the Reporting Periods.

Market risk

The Shanghai Boshwia Group’s activities expose it primarily to the market risks including foreign currency risk and interest rate risk. There has been no change to the Shanghai Boshiwa Group’s exposure to these market risks or the manner in which it manages and measures the risks for the Reporting Periods.

Foreign currency risk management

The primary economic environment which most of the principal subsidiaries of Shanghai Boshiwa operate is the PRC and their functional currency is RMB. However, certain bank balances, sales and purchases of the Shanghai Boshiwa Group are denominated in United States Dollars (“US\$”), Japanese Yen (“JP¥”) and Australian Dollars (“AU\$”), which are currencies other than the

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functional currency of the relevant group entities and expose the Shanghai Boshiwa Group to foreign currency risk.

The carrying amounts of the Shanghai Boshiwa Group's foreign currency denominated bank balances and trade receivables at the end of the year are as follows:

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Assets				
JP¥	51	-	-	-
US\$	<u>3,130</u>	<u>190</u>	<u>21</u>	<u>23</u>
Liabilities				
JP¥	-	-	-	3,168
US\$	-	-	-	70
AU\$	<u>-</u>	<u>-</u>	<u>-</u>	<u>53</u>

Foreign currency sensitivity analysis

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

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
JP¥ impact	2	-	-	(119)
US\$ impact	114	7	1	(2)
AU\$ impact	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2)</u>

The Shanghai Boshiwa Group closely monitors the effects of changes in the foreign exchange rates on the Shanghai Boshiwa Group's currency risk exposures. The Shanghai Boshiwa Group currently does not take any measures to hedge currency risk exposures.

Interest rate risk management

The Shanghai Boshiwa Group's fair value interest rate risk relates primarily to its fixed-rate borrowings and fixed-rate loan receivables. The Shanghai Boshiwa Group's cash flow interest rate risk relates primarily to their variable-rate bank deposits. The Shanghai Boshiwa Group currently does not have a specific policy to manage their interest rate risk and has not entered into interest rate swaps to hedge the exposure, but will closely monitor the interest rate risk exposure in the future. In management's opinion, the Shanghai Boshiwa Group does not have significant exposure to cash flow interest rate risk in relation to its variable-rate bank deposits as at December 31, 2007, 2008, 2009 and June 30, 2010 as it is expected that the reasonably possible change of deposit interest rate is insignificant. Therefore, no sensitivity analysis has been presented.

APPENDIX IC — ACCOUNTANTS' REPORT

Credit risk management

The Shanghai Boshiwa Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations is arising from the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial position at the end of each reporting period.

In order to minimize the credit risk, the management of the Shanghai Boshiwa Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the management of the Shanghai Boshiwa Group reviews the recoverability of each trade debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Shanghai Boshiwa Group considers that the Shanghai Boshiwa Group's credit risk is significantly reduced.

The credit risk on amount due from an associate is limited as management of the Shanghai Boshiwa Group is able to access to the counterparty's financial statements periodically to ensure that follow up actions are taken when any liquidity indications come up.

The Shanghai Boshiwa Group has concentration of credit risk in respect of bank balances. Approximately 92%, 98%, 99% and 85% of the bank balances as at December 31, 2007, 2008, 2009 and June 30, 2010, respectively, were deposited with two of the five biggest state-owned banks in the PRC and the credit risk on these liquid funds is limited.

The Shanghai Boshiwa Group has concentration of credit risk in respect of loan receivables. Approximately 90% of the loan receivables as at December 31, 2009 were provided to 5 long-term suppliers. The management of the Shanghai Boshiwa Group reviews the counterparties' financial status periodically and continuously monitors the level of exposure to ensure that follow up actions and/or collection actions are taken promptly to lower exposure. The above receivables has been settled in full during the six months ended June 30, 2010 as set out in note 22 and 34.

The following table shows the trade accounts and notes receivables ("TR") that individually accounted for more than 10% of the total TR as at the end of each of the reporting period:

	December 31, 2007		December 31, 2008		December 31, 2009		June 30, 2010	
	TR RMB'000	TR %	TR RMB'000	TR %	TR RMB'000	TR %	TR RMB'000	TR %
A	10,000	18	-	-	*	*	*	*
B	8,038	15	-	-	*	*	*	*
C	-	-	21,089	17	*	*	*	*
D	-	-	20,522	17	*	*	*	*
E	-	-	13,980	11	*	*	*	*
F	-	-	12,828	10	*	*	*	*

* Less than 10% of the Group's total TR

The Shanghai Boshiwa Group has concentration of credit risk as at December 31, 2007 and 2008 as 33% and 55%, respectively, of the total TR due from two and four customers.

In order to minimize the credit risk, the management of the Shanghai Boshiwa Group reviews the credit limits and credit approvals periodically and continuously monitors the level of exposure to ensure that follow-up actions and collection actions are taken promptly to lower exposure and recover the overdue debts.

APPENDIX IC — ACCOUNTANTS' REPORT

Liquidity risk management

The management of the Shanghai Boshiwa Group has built an appropriate liquidity risk management framework for the management of the Shanghai Boshiwa Group's short-term funding and liquidity management requirements. The Shanghai Boshiwa Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows.

As at December 31, 2007, 2008 and 2009 and June 30, 2010, the Shanghai Boshiwa Group has available unutilized bank facilities of approximately RMB500,000, RMB32,500,000, RMB500,000 and RMB16,100,000, which will expire on August 24, 2008, September 8, 2011, June 11, 2011 and October 15, 2012 respectively.

The following table details the Shanghai Boshiwa Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed payment terms.

The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Shanghai Boshiwa Group can be required to pay. The table includes both interest and principal cash flows.

	<u>Weighted average interest rate</u> %	<u>Less than 3 months</u> RMB'000	<u>3 months to 1 year</u> RMB'000	<u>Undiscounted cash flows</u> RMB'000	<u>Total Carrying amounts</u> RMB'000
Non-derivative financial liabilities					
As at December 31, 2007					
Trade and other payables	-	37,034	7,772	44,806	44,806
Short-term borrowings					
—fixed rate borrowings	6.15%	767	51,670	52,437	50,850
Amount due to a related party	-	10,000	-	10,000	10,000
Dividends payable	-	10,118	-	10,118	10,118
		<u>57,919</u>	<u>59,442</u>	<u>117,361</u>	<u>115,774</u>
As at December 31, 2008					
Trade and other payables	-	25,843	3,742	29,585	29,585
Short-term borrowings					
—fixed rate borrowings	6.58%	36,086	51,175	87,261	85,000
—factored notes receivable	8.18%	14,415	16,061	30,476	29,895
Dividends payable	-	28,034	-	28,034	28,034
		<u>104,378</u>	<u>70,978</u>	<u>175,356</u>	<u>172,514</u>
As at December 31, 2009					
Trade and other payables	-	82,677	6,521	89,198	89,198
Short-term borrowings					
—fixed rate borrowings	4.64%	77,875	118,029	195,904	191,200
Dividends payable	-	27,058	-	27,058	27,058
		<u>187,610</u>	<u>124,550</u>	<u>312,160</u>	<u>307,456</u>
As at June 30, 2010					
Trade and other payables	-	66,573	1,244	67,817	67,817
Short-term borrowings					
—fixed rate borrowings	4.83%	1,935	162,348	164,283	160,000
Amount due to intermediate holding company	-	3,291	-	3,291	3,291
Dividends payable	-	277,105	-	277,105	277,105
		<u>348,904</u>	<u>163,592</u>	<u>512,496</u>	<u>508,213</u>

APPENDIX IC — ACCOUNTANTS' REPORT

Fair value of financial instruments

The fair value of the Shanghai Boshiwa Group's financial assets and financial liabilities are determined using discounted cash flow analysis and the applicable yield curve.

The management of the Shanghai Boshiwa Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Shanghai Boshiwa Financial Information approximate their fair values.

8. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold and services provided to outside customers during the Reporting Periods.

Mr. Zhong Zheng Yong, the chairman and chief operating decision maker of the Shanghai Boshiwa Group, regularly reviews revenue analysis by major products and the Shanghai Boshiwa Group's profit for the year based on management accounts prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises registered in the PRC and which also conform, in material respects, to the IFRSs, to make decisions about resources allocation and performance assessment. No segment information is presented other than entity-wide disclosures as no other discrete financial information is available for the assessment of performance and resources allocation of different business activities.

Substantially all the Shanghai Boshiwa Group's revenue from external customers is derived from the PRC and the Shanghai Boshiwa Group's non-current assets are also substantially located in the PRC, the place of domicile of the Shanghai Boshiwa Group's operating entities.

Revenue analyzed by major products/ service categories are as follows:

	Year ended December 31, 2007			Year ended December 31, 2008			Year ended December 31, 2009	Six months ended June 30,	
	Discontinued operations	Continuing operations	Total	Discontinued operations	Continuing operations	Total		2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000
Revenue from									
Children's									
apparel and									
accessories . . .	-	93,501	93,501	-	227,555	227,555	569,115	200,309	449,339
Other children's									
products	-	-	-	-	15,985	15,985	61,043	20,643	145,595
OEM services . .	81,681	-	81,681	35,363	-	35,363	-	-	-
Driver training									
services	36,588	-	36,588	31,433	-	31,433	-	-	-
Selling raw									
materials	-	-	-	15,252	-	15,252	-	-	-
Others	-	4	4	-	13	13	20	4	-
Total revenue . . .	<u>118,269</u>	<u>93,505</u>	<u>211,774</u>	<u>82,048</u>	<u>243,553</u>	<u>325,601</u>	<u>630,178</u>	<u>220,956</u>	<u>594,934</u>

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Information about major customer

Revenue from major customer which accounts for 10% or more of the Shanghai Boshiwa Group's revenue during each year/period are as follows:

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Customer A	*	*	*	31,191	*
Customer B	*	*	*	25,803	*

* Less than 10% of the Shanghai Boshiwa Group's total revenue.

9. OTHER INCOME

	<u>Year ended December 31, 2007</u>			<u>Year ended December 31, 2008</u>			<u>Year ended</u>	<u>Six months ended June 30,</u>	
	<u>Discontinued</u>	<u>Continuing</u>	<u>Total</u>	<u>Discontinued</u>	<u>Continuing</u>	<u>Total</u>	<u>December 31,</u>	<u>2009</u>	<u>2010</u>
	<u>operations</u>	<u>operations</u>		<u>operations</u>	<u>operations</u>		<u>operations</u>	<u>2009</u>	<u>2009</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Investment income:									
Interest on bank deposits . . .	64	35	99	21	51	72	41	27	38
Gain on disposal of subsidiaries .	-	-	-	12,879	-	12,879	-	-	-
Gain on disposal of an associate . . .	-	-	-	429	-	429	-	-	-
Rentals from investment properties . .	-	527	527	-	521	521	570	281	292
	<u>64</u>	<u>562</u>	<u>626</u>	<u>13,329</u>	<u>572</u>	<u>13,901</u>	<u>611</u>	<u>308</u>	<u>330</u>
Other gains and losses:									
Loss on disposal of property, plant and equipment	(162)	-	(162)	(32)	-	(32)	(184)	-	-
Net foreign exchange losses	(24)	(9)	(33)	(6)	(46)	(52)	(180)	(41)	(162)
Government grants	325	628	953	141	951	1,092	6,813	6,551	19,443
Others	(11)	(138)	(149)	(20)	(864)	(884)	(138)	(69)	(69)
	<u>128</u>	<u>481</u>	<u>609</u>	<u>83</u>	<u>41</u>	<u>124</u>	<u>6,311</u>	<u>6,411</u>	<u>19,212</u>
	<u>192</u>	<u>1,043</u>	<u>1,235</u>	<u>13,412</u>	<u>613</u>	<u>14,025</u>	<u>6,922</u>	<u>6,749</u>	<u>19,542</u>

APPENDIX IC — ACCOUNTANTS' REPORT

10. FINANCE COSTS

	Year ended December 31, 2007			Year ended December 31, 2008			Year ended December 31, 2009	Six months ended June 30,	
	Discontinued operations	Continuing operations	Total	Discontinued operations	Continuing operations	Total	Total	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest on:									
—borrowings wholly repayable within five years	176	2,796	2,972	500	6,402	6,902	5,765	2,800	4,634

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11. PROFIT BEFORE TAX

	Year ended December 31, 2007			Year ended December 31, 2008			Year ended December 31, 2009	Six months ended June 30,	
	Discontinued operations	Continuing operations	Total	Discontinued operations	Continuing operations	Total		2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000 (unaudited)	RMB'000
Profit before tax has been arrived at after charging (crediting):									
Directors' remuneration, including retirement benefit schemes contributions (note 12)	-	684	684	-	842	842	1,648	824	1,060
Other staff costs	25,259	6,601	31,860	5,904	12,686	18,590	17,950	7,895	18,291
Other staff's retirement benefits scheme contributions	<u>1,808</u>	<u>1,034</u>	<u>2,842</u>	<u>1,442</u>	<u>1,272</u>	<u>2,714</u>	<u>1,813</u>	<u>1,018</u>	<u>1,780</u>
Total staff costs	27,067	8,319	35,386	7,346	14,800	22,146	21,411	9,737	21,131
Allowance for (recovery of) doubtful debts	285	1,466	1,751	804	(788)	16	2,003	837	-
Cost of inventories recognized as expenses	97,435	44,245	141,680	79,195	105,456	184,651	363,853	131,015	332,041
Write-down of inventories	206	-	206	2,357	-	2,357	62	-	344
Depreciation of property, plant, and equipment	5,282	3,252	8,534	3,714	3,174	6,888	6,241	2,931	4,737
Depreciation of investment property	-	121	121	-	121	121	121	61	61
Minimum operating lease rentals in respect of rented premises	729	1,638	2,367	528	3,433	3,961	6,695	2,049	11,132
Contingent operating lease rentals (mainly including concessionaire fees) in respect of rented premises	-	10,461	10,461	-	18,221	18,221	24,361	9,654	18,246
Amortization of prepaid lease payments	45	86	131	29	85	114	258	130	130
Research expenses	-	1,441	1,441	-	1,802	1,802	2,630	1,039	1,303
Auditors' remuneration	165	220	385	145	220	365	207	106	502
Gross rental income less direct operating expenses from investment property	<u>-</u>	<u>(527)</u>	<u>(527)</u>	<u>-</u>	<u>(521)</u>	<u>(521)</u>	<u>(570)</u>	<u>(281)</u>	<u>(292)</u>

APPENDIX IC — ACCOUNTANTS' REPORT

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

Details of the emoluments paid to the directors of Shanghai Boshiwa for the Reporting Periods are as follows:

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Directors				(unaudited)	
—salaries and other benefits	650	800	1,600	800	1,025
—contributions to retirement benefit scheme	<u>34</u>	<u>42</u>	<u>48</u>	<u>24</u>	<u>35</u>
	<u>684</u>	<u>842</u>	<u>1,648</u>	<u>824</u>	<u>1,060</u>

The emoluments of the directors on a named basis are as follows:

	<u>Year ended December 31, 2007</u>		
	<u>Salaries and other benefits</u>	<u>Retirement benefit scheme contribution</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Mr. Zhong Zheng Yong	400	17	417
Ms. Chen Li Ping	250	17	267
Mr. Chen Zhong Xin	-	-	-
Mr. Wang Zheng Gang	-	-	-
Mr. Qiao Yi Ping	-	-	-
Mr. Zhang Ke Ming	-	-	-
	<u>650</u>	<u>34</u>	<u>684</u>

	<u>Year ended December 31, 2008</u>		
	<u>Salaries and other benefits</u>	<u>Retirement benefit scheme contribution</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Mr. Zhong Zheng Yong	450	21	471
Ms. Chen Li Ping	350	21	371
Mr. Wu Ge	-	-	-
Mr. Sun Li Sheng	-	-	-
Mr. Guo Peng	-	-	-
Mr. Wang Shi Ming	-	-	-
Mr. Li Shu Jun	-	-	-
Mr. Chen Pei Qi, Peter	-	-	-
	<u>800</u>	<u>42</u>	<u>842</u>

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	Year ended December 31, 2009		
	Salaries and other benefits	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000
Mr. Zhong Zheng Yong	1,000	24	1,024
Ms. Chen Li Ping	600	24	624
Mr. Wu Ge	-	-	-
Mr. Sun Li Sheng	-	-	-
Mr. Guo Peng	-	-	-
Mr. Wang Shi Ming	-	-	-
Mr. Ji Hong Jun	-	-	-
	<u>1,600</u>	<u>48</u>	<u>1,648</u>
	Six months ended June 30, 2010		
	Salaries and other benefits	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000
Mr. Zhong Zheng Yong	500	12	512
Ms. Chen Li Ping	300	12	312
Mr. Lv Mao Long	225	11	236
Mr. Lin Ning David	-	-	-
Mr. Wu Ge	-	-	-
Mr. Guo Peng	-	-	-
Mr. Wang Shi Ming	-	-	-
	<u>1,025</u>	<u>35</u>	<u>1,060</u>
	Six months ended June 30, 2009		
	Salaries and other benefits	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000 (unaudited)	RMB'000
Mr. Zhong Zheng Yong	500	12	512
Ms. Chen Li Ping	300	12	312
Mr. Wu Ge	-	-	-
Mr. Sun Li Sheng	-	-	-
Mr. Guo Peng	-	-	-
Mr. Wang Shi Ming	-	-	-
Mr. Ji Hong Jun	-	-	-
	<u>800</u>	<u>24</u>	<u>824</u>

Shanghai Boshiwa has not paid any emoluments to those non-executive directors, who were nominated by beneficial equity owners of Shanghai Boshiwa.

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The five highest paid individuals include two directors of Shanghai Boshiwa for each of the year ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 (unaudited), and include three directors of Shanghai Boshiwa for the six months ended June 30, 2010. Details of whose emoluments are set out above. The emoluments of the remaining three individuals during the years ended December 31, 2007, 2008 and 2009, the six months ended June 30, 2009 (unaudited), and the remaining two individuals during the six months ended June 30, 2010 were as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Employees					
—salaries and other benefits	250	320	1,070	535	315
—contributions to retirement benefit scheme	<u>28</u>	<u>27</u>	<u>63</u>	<u>32</u>	<u>20</u>
	<u>278</u>	<u>347</u>	<u>1,133</u>	<u>567</u>	<u>335</u>

During the Reporting Periods, no emoluments were paid by the Shanghai Boshiwa Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Shanghai Boshiwa Group or as compensation for loss of office. None of the directors has waived any emoluments during the Reporting Periods. Except for Mr. Zhong Zheng Yong for the year ended December 31, 2009, the annual emoluments of each of the five highest paid individuals during the Reporting Period were below HK\$1,000,000.

13. INCOME TAX EXPENSE

	Year ended December 31, 2007			Year ended December 31, 2008			Year ended December 31, 2009	Six months ended June 30,	
	Discontinued operations	Continuing operations	Total	Discontinued operations	Continuing operations	Total	Total	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax:									
PRC Enterprise Income Tax ("EIT")	2,335	3,245	5,580	144	20,330	20,474	44,228	13,840	52,778
Deferred tax charge (note 23):	<u>74</u>	<u>(48)</u>	<u>26</u>	<u>-</u>	<u>(322)</u>	<u>(322)</u>	<u>(766)</u>	<u>(166)</u>	<u>(4,014)</u>
Total tax expense . .	<u>2,409</u>	<u>3,197</u>	<u>5,606</u>	<u>144</u>	<u>20,008</u>	<u>20,152</u>	<u>43,462</u>	<u>13,674</u>	<u>48,764</u>

In year 2007, as foreign-invested manufacturing oriented companies registered in Shanghai old town, the applicable EIT rate for Shanghai Boshiwa and Shanghai Ronghua was 27%; as a foreign invested manufacturing oriented company located in Shanghai Waigaoqiao Free Trade Zone, the applicable EIT rate for Shanghai Rongli was 15%. The applicable EIT rate for Shanghai Rongchen was 33%. EIT provision for Driver Training and Shanghai Knitting was 0.5% to 3.3% of the revenue from different sales or services for the year as adjusted in accordance with the relevant tax laws.

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

The applicable income tax rate for Shanghai Boshiwa, Shanghai Rongchen, Shanghai Rongbai and Shanghai Ronghua is 25% from 2008. In accordance with relevant regulations, Shanghai Rongli was entitled to enjoy a transition period of 5 years to gradually resume 25% tax rate. The applicable

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income tax rate for 2008 was 18%. EIT provision for Driver Training and Shanghai Knitting was 0.5% to 3.3% of the revenue from different sales or services for the year/period as adjusted in accordance with the relevant tax laws.

The deemed taxation method of tax calculation is used by the tax authorities for ease of tax administration purpose. If a taxpayer obtains approval from a competent tax authority to use deemed taxation method to file their income tax return, it will be taxed at 25% statutory income tax rate (or 33% for 2007) on a deemed profit instead of actual profit. The deemed profit is calculated based on the reported turnover and a deemed profit rate, which is usually determined and approved by the tax authority based on the industry which the taxpayer is engaged in.

Driver Training and Rongchen Knitting had received approval from their relevant local tax authority which allows them to report their income tax on the deemed profit basis. Before their businesses were disposed of by the Company in 2008, their applicable statutory tax rates were 33% and 25% for 2007 and 2008 respectively. As their deemed profits were calculated at 1.52% to 12% of the revenue from different sales or services, the effective income tax liability was 0.5% to 3.3% of the revenue from the respective sales or services for the year/period.

No additional tax liabilities are required for the Shanghai Boshiwa Group on the differences between the deemed and actual profits of Driver Training and Rongchen Knitting, if any, after its disposal of Driver Training and Rongchen Knitting in 2008.

The deferred tax balance has already reflected the tax rates that are expected to apply to the respective periods when the asset is realized or the liability is settled.

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The taxation for the Reporting Periods is reconciled to profit before tax as follows:

	Year ended December 31, 2007			Year ended December 31, 2008			Year ended December 31, 2009	Six Months ended June 30,	
	Discontinued operations	Continuing operations	Total	Discontinued operations	Continuing operations	Total	Total	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	13,150	10,239	23,389	6,313	77,123	83,436	172,893	54,604	194,946
Income tax expense at PRC income tax rates (2007: 27%; 2008, 2009 and 2010: 25%)	3,550	2,764	6,314	1,578	19,280	20,858	43,223	13,651	48,737
Tax effect of expenses not deductible for tax purpose	77	481	558	499	888	1,387	241	23	27
Effect of unused tax losses not recognized as deferred tax assets	-	-	-	1,201	-	1,201	-	-	-
Effect of deductible temporary differences not recognized as deferred tax assets	-	-	-	790	-	790	-	-	-
Effect of different tax rates of subsidiaries	(552)	-	(552)	(551)	-	(551)	-	-	-
Effect of tax calculated based on revenue as a deemed profit basis	(740)	-	(740)	(97)	-	(97)	-	-	-
Effect of revenue that is exempted from taxation	-	-	-	(3,276)	-	(3,276)	-	-	-
Effect of change in tax rate	50	319	369	-	-	-	-	-	-
Others	24	(367)	(343)	-	(160)	(160)	(2)	-	-
Taxation for the year	<u>2,409</u>	<u>3,197</u>	<u>5,606</u>	<u>144</u>	<u>20,008</u>	<u>20,152</u>	<u>43,462</u>	<u>13,674</u>	<u>48,764</u>

14. DISCONTINUED OPERATIONS

In August 2008, the board of directors of Shanghai Boshiwa approved to dispose of the Shanghai Boshiwa Group's manufacturing and OEM operations and driver training services, and the management of Shanghai Boshiwa was in negotiation with potential acquirers on detailed terms. The proposed disposal was consistent with the Shanghai Boshiwa Group's long-term policy to focus its activities in designing, sourcing and marketing of children's products. The Shanghai Boshiwa Group has not recognized any impairment losses in respect of the manufacturing and OEM operations and driver training services, neither when the operation was reclassified as held for sale nor at the end of the reporting period.

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During August to October 2008, Shanghai Boshiwa disposed its manufacturing subsidiaries and Driver Training (which are classified as discontinued operations in the Accountant's Report for the Predecessor Periods and detailed in note 33 below), as well as its associates. The disposal of the manufacturing operations is consistent with the Shanghai Boshiwa Group's long-term policy to focus its activities in designing, sourcing and marketing of children's products. The disposals were completed when control of the manufacturing operations passed to the acquirer.

The combined results of the discontinued operations included in the consolidated statements of comprehensive income and consolidated statements of cash flows are set out below.

	Year ended December 31,	
	2007	2008
	RMB'000	RMB'000
Profit for the year from discontinued operations		
Revenue	118,269	82,048
Share of profits of associates	2,632	1,727
Other income	192	104
	<u>121,093</u>	<u>83,879</u>
Expenses	(107,943)	(90,874)
Profit (loss) before tax	13,150	(6,995)
Attributable income tax expense	(2,409)	(144)
	<u>10,741</u>	<u>(7,139)</u>
Gain on disposal of subsidiaries (note 9)	-	12,879
Gain on disposal of an associate (note 9)	-	429
Profit for the year from discontinued operations (attributable to owners of Shanghai Boshiwa)	<u>10,741</u>	<u>6,169</u>
Cash flows from discontinued operations		
Net cash generated from operating activities	8,328	6,192
Net cash (used in) generated from investing activities	(2,651)	839
Net cash used in financing activities	(5,323)	(12,005)
Net cash generated from (used in) discontinued operations	<u>354</u>	<u>(4,974)</u>

15. DIVIDENDS

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Dividends declared for the year/period	<u>-</u>	<u>33,067</u>	<u>2,802</u>	<u>-</u>	<u>300,047</u>

Pursuant to the resolutions of Board of Directors' meetings dated April 28, 2008, July 15, 2009 and June 30, 2010, Shanghai Boshiwa declared dividends of approximately RMB 33,067,000, RMB 2,802,000 and RMB 300,047,000, respectively.

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16. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Machinery</u>	<u>Furniture, fixtures and equipment</u>	<u>Motor vehicles</u>	<u>Leasehold improvements</u>	<u>Construction in progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At January 1, 2007	56,878	35,069	18,138	36,997	2,998	145	150,225
Additions	638	425	1,599	4,420	161	-	7,243
Disposals	-	(9,560)	(243)	(3,629)	(294)	-	(13,726)
At December 31, 2007	57,516	25,934	19,494	37,788	2,865	145	143,742
Additions	41,899	-	6,728	1,734	-	735	51,096
Transfers	-	-	-	145	-	(145)	-
Disposals	-	(1,198)	(13)	(597)	(241)	-	(2,049)
Derecognized on disposal of subsidiaries (note 33)	(31,906)	(13,180)	(9,226)	(36,285)	(2,624)	(181)	(93,402)
At December 31, 2008	67,509	11,556	16,983	2,785	-	554	99,387
Additions	-	33	8,938	2,061	-	6,536	17,568
Transfers	-	204	2,930	-	3,647	(6,781)	-
Disposals	-	(6,127)	-	(185)	-	-	(6,312)
At December 31, 2009	67,509	5,666	28,851	4,661	3,647	309	110,643
Additions	-	-	13,990	-	2,668	50,117	66,775
Transfers	-	-	577	-	49,849	(50,426)	-
At June 30, 2010	67,509	5,666	43,418	4,661	56,164	-	177,418
DEPRECIATION							
At January 1, 2007	(15,293)	(28,234)	(11,571)	(18,356)	(2,091)	-	(75,545)
Provided for the year	(1,616)	(1,297)	(1,666)	(3,665)	(290)	-	(8,534)
Eliminated on disposals	-	8,023	218	1,834	268	-	10,343
At December 31, 2007	(16,909)	(21,508)	(13,019)	(20,187)	(2,113)	-	(73,736)
Provided for the year	(1,280)	(452)	(2,226)	(2,772)	(158)	-	(6,888)
Eliminated on disposals	-	1,078	13	519	68	-	1,678
Eliminated on disposal of subsidiaries (note 33)	9,123	10,574	7,947	20,186	2,203	-	50,033
At December 31, 2008	(9,066)	(10,308)	(7,285)	(2,254)	-	-	(28,913)
Provided for the year	(2,713)	(81)	(3,239)	(206)	(2)	-	(6,241)
Eliminated on disposals	-	5,632	-	165	-	-	5,797
At December 31, 2009	(11,779)	(4,757)	(10,524)	(2,295)	(2)	-	(29,357)
Provided for the period	(1,341)	(60)	(2,547)	(241)	(548)	-	(4,737)
At June 30, 2010	(13,120)	(4,817)	(13,071)	(2,536)	(550)	-	(34,094)
CARRYING VALUE							
At December 31, 2007	40,607	4,426	6,475	17,601	752	145	70,006
At December 31, 2008	58,443	1,248	9,698	531	-	554	70,474
At December 31, 2009	55,730	909	18,327	2,366	3,645	309	81,286
At June 30, 2010	54,389	849	30,347	2,125	55,614	-	143,324

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The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives using the straight-line method, at the following rates per annum:

Buildings	3%-9%
Machinery	9%
Furniture, fixtures and equipment	9%-20%
Motor vehicles	13%-18%
Leasehold improvements	Over the shorter of the lease term and 10 years

The Shanghai Boshiwa Group's buildings are located on land in the PRC under a lease term of 50 years.

As at December 31, 2007, 2008, 2009, and June 30, 2010 the Shanghai Boshiwa Group pledged its buildings with carrying values of approximately RMB40,607,000, RMB58,443,000, RMB55,730,000 and RMB 54,389,000, respectively to a bank to secure banking facilities granted to Shanghai Boshiwa.

17. PREPAYMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND COMPUTER SOFTWARE

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Prepayments for acquisition of:				
—property, plant and equipment	-	-	92,700	42,372
—computer software	-	-	24,150	24,150
	<u>-</u>	<u>-</u>	<u>116,850</u>	<u>66,522</u>

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18. PREPAID LEASE PAYMENTS

	Land use rights			
	RMB'000			
COST				
At January 1, 2007 and December 31, 2007	4,641			
Additions	5,197			
Derecognized on disposal of subsidiaries (note 33)	(2,029)			
At December 31, 2008, 2009 and June 30, 2010	7,809			
RELEASE TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
At January 1, 2007	1,116			
Released to the consolidated statement of comprehensive income during the year	131			
At December 31, 2007	1,247			
Released to the consolidated statement of comprehensive income during the year	114			
Eliminated on disposal of subsidiaries (note 33)	(481)			
At December 31, 2008	880			
Released to the consolidated statement of comprehensive income during the year	258			
At December 31, 2009	1,138			
Released to the consolidated statement of comprehensive income during the year	130			
At June 30, 2010	1,268			
CARRYING VALUES				
At December 31, 2007	3,394			
At December 31, 2008	6,929			
At December 31, 2009	6,671			
At June 30, 2010	6,541			
	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Analyzed for reporting purpose as:				
—Non-current assets	3,263	6,669	6,411	6,281
—Current assets	131	260	260	260
	3,394	6,929	6,671	6,541

The two pieces of land which the Shanghai Boshiwa Group's buildings and the investment property are situated on are located in Shanghai, PRC under medium-term lease for a period of 50 years and will expire in 2043 and 2047 respectively. The land use rights with carrying value of approximately RMB3,394,000, RMB6,929,000, RMB6,671,000 and RMB 6,541,000 as at December 31, 2007, 2008, 2009 and June 30, 2010 were pledged against the short-term borrowings of the Shanghai Boshiwa Group.

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19. INVESTMENT PROPERTY

	RMB'000
Cost	
At January 1, 2007, December 31, 2007, 2008, 2009 and June 30, 2010	4,035
DEPRECIATION	
At January 1, 2007	373
Provided for the year	121
At December 31, 2007	494
Provided for the year	121
At December 31, 2008	615
Provided for the year	121
At December 31, 2009	736
Provided for the period	61
At June 30, 2010	797
CARRYING VALUES	
At December 31, 2007	3,541
At December 31, 2008	3,420
At December 31, 2009	3,299
At June 30, 2010	3,238

The above property is depreciated over its estimated useful life using the straight-line method, at the rate of 3% per annum. The fair value of the Shanghai Boshiwa Group's investment property and the land use right where it is located was RMB14,982,000, RMB15,993,000, RMB14,755,000 and RMB14,697,000 at December 31, 2007, 2008, 2009 and June 30, 2010 respectively, which have been arrived at on the basis of a valuation carried out by Jones Lang LaSalle Sallmanns Limited, independent qualified professional valuers not connected with the Shanghai Boshiwa Group, with a valuation report issued on August 3, 2010. Jones Lang LaSalle Sallmanns Limited are members of the Hong Kong Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by the income approach by taking into account the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease, which has been then capitalized to determine the market value at an appropriate capitalization rate. Where appropriate, reference has also been made to the comparable sale transactions as available in the relevant market.

The Shanghai Boshiwa Group's investment property is located on land in the PRC under a lease term of 50 years. The Shanghai Boshiwa Group's investment property has been pledged to secure banking facilities as at December 31, 2007, 2008, 2009, and June 30, 2010.

20. INTANGIBLE ASSETS

	Trademark RMB'000
COST	
At December 31, 2007, 2008, 2009 and June 30, 2010	10,469
IMPAIRMENT	
At December 31, 2007, 2008, 2009 and June 30, 2010	-
CARRYING VALUES	
At December 31, 2007, 2008, 2009 and June 30, 2010	10,469

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The trademark is registered in the PRC and the current registration will expire in 2017. In the opinion of directors, the Shanghai Boshiwa Group will not incur significant costs to renew the registration of the trademark which is a routine administrative procedure. Accordingly, the trademark is deemed to have an indefinite useful life and is carried at cost less any subsequent accumulated impairment losses.

Impairment tests for intangible assets with indefinite life

For the purpose of impairment testing, trademark has been allocated to a cash-generating unit, children’s apparel, accessories and other products (the “CGU”).

As at December 31, 2007, 2008, 2009 and June 30, 2010, the directors of Shanghai Boshiwa determined that the CGU containing the trademark had not suffered any impairment.

The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarized below:

—The recoverable amount of the CGU has been determined based on value in use calculation.

—That calculation uses cash flow projections based on financial budgets approved by management covering one year period and a discount rate of 20% at December 31, 2007, 2008, 2009 and June 30, 2010. The cash flows beyond one year period are extrapolated using a steady annual growth rate of 3% at the end of each reporting period. This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term rate for the relevant industry. The discount rate of 20% is the return of the Shanghai Boshiwa’s assets that reflects current market assessments of the time value of money and the specific risk associated with the CGU, after taking into account of the weighted average cost of equity and debt.

—Other key assumption for the value in use calculation related to the estimation of cash inflows and outflows include budgeted sales and gross margin. Such estimation is based on the CGU’s past performance and management’s expectations for the market development. The directors of Shanghai Boshiwa consider that any reasonably possible change in any of these assumptions would not cause the carrying amount (including the trademark) of the CGU to exceed the corresponding recoverable amount.

21. INVESTMENT IN ASSOCIATES

	At December 31,			At
	2007	2008	2009	June 30,
	RMB’000	RMB’000	RMB’000	2010
	RMB’000	RMB’000	RMB’000	RMB’000
Investments in associates:				
—Unlisted investments in PRC, at cost	15,717	-	-	-
—Share of post-acquisition profits and other comprehensive income, net of dividends received	2,446	-	-	-
	18,163	-	-	-

APPENDIX IC — ACCOUNTANTS' REPORT

Particulars of Shanghai Boshiwa's directly and indirectly held associates at December 31, 2007 are as follows:

Name of associate	Place and date of establishment and operation	Fully paid registered capital	Attributable equity interests held by Shanghai Boshiwa at		Principal activities
			December 31, 2007	date of disposal	
Directly held:					
上海榮豐印花裝飾服飾有限公司 (Shanghai Rongfeng Printing Clothing Company Limited ("Rongfeng"))#	PRC March 16, 1993	US\$ 600,000	40%	40%	Embroider, knitting
Indirectly held:					
上海星火機動車駕駛員培訓有限公司 (Shanghai Xinghuo Driver Training Company Limited ("Xinghuo"))#	PRC September 27, 2005	RMB 56,530,000	15%	15%	Driver training

Limited liability company. The English name is for identification purpose only.

The summarized financial information in respect of the Shanghai Boshiwa Group's associates in respect of the year ended December 31, 2007 is set out below:

	<u>2007</u> RMB'000
Total assets	78,470
Total liabilities	7,580
Net assets	<u>70,890</u>
The Shanghai Boshiwa Group's share of net assets of associates	<u>18,163</u>
Revenue	<u>21,653</u>
Profit for the year	<u>7,110</u>
The Shanghai Boshiwa Group's share of results of associates for the year	<u>2,632</u>

22. LOAN RECEIVABLES

	At December 31,			At
	2007	2008	2009	June 30,
	RMB'000	RMB'000	RMB'000	2010
Loan receivables	-	-	38,610	-

Shanghai Boshiwa has provided unsecured loans to certain long-term suppliers at a fixed rate of 5.40% per annum with maturity periods not exceeding 3 years, which will be due in December 2012.

The Shanghai Boshiwa Group has not provided any allowance for the loan receivables as at December 31, 2009.

The interest was waived and all of the above receivables were settled in full before June 30, 2010.

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23. DEFERRED TAX

The following is the deferred tax assets/(liabilities) recognized by the Group and movements thereon during the Reporting Periods.

	Write-down of inventories	Doubtful debts	Amortization of intangible assets	Accrued payroll and other expenses	Others	Tax losses	Unrealized profit in inventories arising from inter-company transaction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007	1,669	502	(807)	-	38	-	-	1,402
Effect of change in tax rate	(124)	(245)	-	-	-	-	-	(369)
Credit (charge) to consolidated statement of comprehensive income for the year . . .	<u>52</u>	<u>438</u>	<u>(87)</u>	<u>-</u>	<u>(60)</u>	<u>-</u>	<u>-</u>	<u>343</u>
At December 31, 2007 . .	1,597	695	(894)	-	(22)	-	-	1,376
(Charge) credit to consolidated statement of comprehensive income for the year . . .	-	(197)	(88)	-	607	-	-	322
Elimination on disposal of subsidiaries (note 33)	<u>(678)</u>	<u>(47)</u>	<u>-</u>	<u>-</u>	<u>(585)</u>	<u>-</u>	<u>-</u>	<u>(1,310)</u>
At December 31, 2008 . .	919	451	(982)	-	-	-	-	388
Credit (charge) to consolidated statement of comprehensive income for the year . . .	<u>15</u>	<u>500</u>	<u>(87)</u>	<u>-</u>	<u>-</u>	<u>213</u>	<u>125</u>	<u>766</u>
At December 31, 2009 . .	934	951	(1,069)	-	-	213	125	1,154
Credit (charge) to consolidated statement of comprehensive income for the period	<u>86</u>	<u>-</u>	<u>(44)</u>	<u>3,924</u>	<u>-</u>	<u>(213)</u>	<u>261</u>	<u>4,014</u>
At June 30, 2010	<u>1,020</u>	<u>951</u>	<u>(1,113)</u>	<u>3,924</u>	<u>-</u>	<u>-</u>	<u>386</u>	<u>5,168</u>

The following is the analysis of the deferred tax balance for financial report presentation purposes.

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	<u>1,376</u>	<u>388</u>	<u>1,154</u>	<u>5,168</u>

The deferred tax balances have reflected the tax rates that are expected to apply in the respective periods when the asset is realized or the liability is settled.

As at the end of each reporting period, the Shanghai Boshiwa Group had no significant unprovided deferred taxation.

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24. INVENTORIES

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Raw materials	7,559	3,842	3,310	3,428
Work-in-progress	24,757	-	-	-
Finished goods and merchandise	57,374	85,445	145,476	220,963
	<u>89,690</u>	<u>89,287</u>	<u>148,786</u>	<u>224,391</u>

25. TRADE AND OTHER RECEIVABLES

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

All receivables are expected by the management to be recovered within the next 12 months from the end of each reporting period.

The Shanghai Boshiwa Group allows a credit period ranging from 0 to 180 days to its customers. The aging analysis of trade receivables and notes receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period is as follows:

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

Included in the Shanghai Boshiwa Group's trade receivable balance are debtors with an aggregate carrying amount of RMB2,537,000, RMB6,430,000, RMB15,789,000 and RMB20,864,000 as at December 31, 2007, 2008, 2009 and June 30, 2010 which are past due at the end of the reporting period but against which the Shanghai Boshiwa Group has not recognized an impairment loss.

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Ageing of trade receivables which are past due but not impaired:

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

Other receivables mainly represented certain lease deposits, which were unsecured, non-interest bearing and to be settled on demand. As at December 31, 2008, other receivables also included the consideration receivable on disposal of subsidiaries.

The Shanghai Boshiwa Group does not hold any collateral over these balances. In determining the recoverability of the trade receivables, the Shanghai Boshiwa Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the management believe that no further allowance is required.

Movement in the allowance for doubtful debts:

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

The age of notes receivable at December 31, 2007 and 2008 was within 180 days. The recoverability risk of notes receivable is limited and all the note receivables were discounted and settled within due date.

26. AMOUNT DUE FROM AN ASSOCIATE

Details of the amount due from an associate of the Shanghai Boshiwa Group are as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Rongfeng	<u>3,019</u>	<u>-</u>	<u>-</u>	<u>-</u>

The amount is non-trade nature, interest-free and unsecured, and repayable on demand. On August 22, 2008, Shanghai Boshiwa disposed of Rongfeng to a third party (note 21). The maximum amount outstanding during the year ended December 31, 2007 and 2008 was approximately RMB 3,019,000 and RMB 5,355,000, respectively. Advances made to this associate during the year ended December 31, 2007 and 2008 amounted to RMB 1,287,000 and RMB 2,336,000, respectively.

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27. AMOUNT DUE FROM A SHAREHOLDER/TO INTERMEDIATE HOLDING COMPANY

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Amount due from Great Dragon	-	542	1,029	1,272
Amount due to Pacific Leader International Holdings Limited	-	-	-	3,291

The amount due from Great Dragon was non-trade in nature, interest-free and unsecured, and repayable on demand. The maximum amount due from Great Dragon outstanding during the year ended December 31, 2007, 2008, 2009 and June 30, 2010 was RMB nil, RMB542,000, RMB1,029,000 and RMB 1,272,000 respectively. Advances made to this shareholder during the year ended December 31, 2008, 2009 and the six months ended June 30, 2010 was RMB542,000, RMB487,000 and RMB243,000, respectively. The above balance has been settled before September 2010.

The amount due to Pacific Leader International Holdings Limited (Shanghai Boshiwa's intermediate holding company) was trade in nature, interest-free and unsecured, and will be settled in cash under contract.

28. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

Bank balances and cash dominated in RMB comprise cash held by the Shanghai Boshiwa Group and current bank deposits which carry interest at market rates of 0.72% per annum at December 31, 2007 and 0.36% per annum at December 31, 2008, 2009 and June 30, 2010. Bank balances and cash denominated in US\$ comprise current bank deposits which carry interest at market rates of 1.15%, 0.05%, 0.15% and 0.10% per annum at December 31, 2007, 2008, 2009 and June 30, 2010, respectively. Bank balances and cash and pledged bank deposits denominated in US\$ are set out below:

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Bank balances and cash and pledged bank deposits denominated in:				
US\$	177	3	21	23

The pledged bank deposits were pledged to secure the short-term bank borrowings.

Certain bank balances and cash and pledged bank deposits of approximately RMB27,522,000 RMB32,918,000, RMB87,251,000 and RMB156,883,000 at December 31, 2007, 2008, 2009 and June 30, 2010, respectively were denominated in RMB which is not a freely convertible currency in the international market. The pledged bank deposits were pledged to secure the short-term bank borrowings. The exchange rate of RMB is controlled by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

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29. TRADE AND OTHER PAYABLES

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables	23,880	21,858	77,303	38,031
Value-added tax payables	2,975	4,405	25,868	23,001
Payroll payables	2,918	2,967	4,379	5,953
Other payables	18,197	4,762	7,554	24,036
	<u>47,970</u>	<u>33,992</u>	<u>115,104</u>	<u>91,021</u>

The following is an aged analysis of trade payables at the end of each reporting period:

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Age				
0 to 90 days	19,001	18,924	76,397	35,843
91 to 180 days	473	1,709	649	1,058
Over 180 days	4,406	1,225	257	1,130
	<u>23,880</u>	<u>21,858</u>	<u>77,303</u>	<u>38,031</u>

The trade payable comprises amounts outstanding for the trade purchases. The average credit period on purchase of goods is 90 days. The Shanghai Boshiwa Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

30. SHORT-TERM BORROWINGS

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Short-term bank loans				
—secured	(1) 50,850	65,000	191,200	150,000
—unsecured	-	-	-	10,000
—factored notes receivable	(2) -	29,895	-	-
Loans from other entity	(3) -	20,000	-	-
	<u>50,850</u>	<u>114,895</u>	<u>191,200</u>	<u>160,000</u>

Notes:

- (1) The short-term bank loans were secured (see notes 16, 18 and 19) and the weighted average effective interest rate of the Shanghai Boshiwa Group's fixed-rate bank borrowings was equal to contracted interest rate at 6.15%, 6.14%, 4.64% and 4.84% per annum at December 31, 2007, 2008, 2009 and June 30, 2010 respectively. All the Shanghai Boshiwa Group's bank loans have contractual maturity within one year from the end of the reporting period.
- (2) At December 31, 2008, the Shanghai Boshiwa Group factored notes receivable of approximately RMB29,895,000 to a bank with full recourse. The finance charges in relation to the factorization of the notes receivable were borne by the Shanghai Boshiwa Group. The related bank loans of approximately RMB29,895,000 were classified as current liabilities with a maturity period of not exceeding 6 months, at weighted average discount rate of 8.18% per annum.
- (3) The loans were obtained from Shanghai King Lion Co., Ltd., which is controlled by Mr. Wang Shi Ming, one of the directors of Shanghai Boshiwa. The shareholders of Shanghai King Lion Co., Ltd. are also the ultimate shareholders of Hambo Group Limited. The amounts were unsecured with a fixed interest rate of 8% per annum at December 31, 2008, with a maturity period of not exceeding 1 year. Loans received from the entity were RMB35,000,000 and RMB nil during the year ended December 31, 2008 and 2009, and RMB15,000,000 and RMB20,000,000 were paid back during the year ended December 31, 2008 and 2009, respectively.

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31. AMOUNT DUE TO A RELATED PARTY

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a related party				
Shanghai Zhixuan(*)	10,000	-	-	-

* Shanghai Zhixuan, a former shareholder, transferred its equity interest of 10% in Shanghai Boshiwa to Great Dragon on August 20, 2008.

The amount due to Shanghai Zhixuan represented loans provided by Shanghai Zhixuan, which were unsecured, non-interest bearing and to be settled on demand. The loans from Shanghai Zhixuan were RMB 10,000,000 and RMB 13,746,000 during year ended December 31, 2007 and 2008, and all loans were paid back during the year ended December 31, 2008. Further, loans of RMB 30,000,000 were received from Bright Food (Group) Co., Ltd., the holding company of Haibo which transferred its equity interest of 50% in Shanghai Boshiwa to Great Dragon on August 15, 2008, during the year ended December 31, 2008. Such loans were fully repaid to this related company during the year ended December 31, 2008.

32. PAID-IN CAPITAL

The paid-in capital of Shanghai Boshiwa Group at December 31, 2007, 2008, 2009 and June 30, 2010 represented the sum of fully paid registered capital of Shanghai Boshiwa contributed by the owners of Shanghai Boshiwa.

Pacific Leader injected US\$ 16 million and US\$ 20 million to Shanghai Boshiwa in the year ended December 31, 2009 and the six months ended June 30, 2010, and the paid-in capital of Shanghai Boshiwa increased from RMB 99,463,000 as at December 31, 2008 to RMB 208,758,000 as at December 31, 2009 and to RMB 345,307,000 as at June 30, 2010.

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Paid-in capital of Shanghai Boshiwa	99,463	99,463	208,758	345,307

33. DISPOSALS OF SUBSIDIARIES

On August 22, 2008, Shanghai Boshiwa disposed of its entire equity interest of Shanghai Ronghua and Shanghai Rongli to a third party for a consideration of approximately RMB1,400,000 and RMB 9,287,000, respectively.

On September 16, 2008 and October 15, 2008, Shanghai Boshiwa disposed of equity interest of Rongchen Knitting (including Shanghai Rongbai, a subsidiary of Rongchen Knitting) and Driver Training (including an associate of Driver Training) to an independent third party for a consideration of approximately RMB2,210,000 and RMB10,200,000, respectively.

As a result, the disposed subsidiaries mentioned above no longer contributed to the business of the Shanghai Boshiwa Group for the Reporting Periods and their net assets were derecognized upon the date of disposal.

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The summary of the aggregate net assets of the disposed subsidiaries at the date of disposal were as follows:

	<u>At date of disposal</u> <u>RMB'000</u>
Net assets disposed of:	
Property, plant and equipment	43,369
Prepaid lease payments	1,548
Deferred tax assets	1,310
Investment in an associate	16,564
Inventories	62,957
Trade and other receivables	25,516
Amounts due from group companies	26,373
Bank balances and cash	8,240
Trade and other payables	(54,559)
Amounts due to group companies	(107,967)
Tax liabilities	(281)
Dividends payable to non-controlling interests	
—declared before August 15, 2008	(767)
Dividends payable to non-controlling interests	
—declared after August 15, 2008	(3,532)
Non-controlling interests	<u>(8,553)</u>
Net assets disposed of	<u>10,218</u>
Total consideration	23,097
Net assets disposed of	<u>(10,218)</u>
Gain on disposal	<u>12,879</u>
Consideration satisfied by:	
Cash received in 2008	10,397
Cash received in 2009(*)	<u>12,700</u>
	<u>23,097</u>
Consideration received in 2008	10,397
Less: cash and cash equivalents disposed	<u>(8,240)</u>
Net cash inflow arising on disposal	<u>2,157</u>

* The amount was included in the other receivables as at December 31, 2008 which was unsecured, non-interest bearing and to be settled on demand.

34. NON-CASH TRANSACTIONS

The factored notes receivable of approximately RMB29,910,000, RMB29,895,000 and RMB29,849,000 were offset against the corresponding bank borrowings upon maturity during the year ended December 31, 2008, the year ended December 31, 2009 and the six months ended June 30, 2009, respectively.

During the six months ended June 30, 2010, RMB38,610,000 merchandises were received from certain suppliers to settle the loans advanced to them by Shanghai Boshiwa in 2009.

Shanghai Boshiwa obtained the control and the entire beneficial economic interest in Shanghai Desheng from June 28, 2010 through Structure Contracts as set out in note 1.

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35. OPERATING LEASES

The Shanghai Boshiwa Group as lessee

At the end of the reporting period, the Shanghai Boshiwa Group was committed to make the following future minimum leases payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	<u>At December 31,</u>			<u>At</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>June 30,</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Within one year	851	2,670	8,286	23,516
In the second to fifth years inclusive	1,345	22	23,066	91,302
After five years	-	-	4,872	15,306
	<u>2,196</u>	<u>2,692</u>	<u>36,224</u>	<u>130,124</u>

Operating lease payments represented rentals payable by the Shanghai Boshiwa Group for certain of its stores, sales counters and a warehouse. Certain of the Shanghai Boshiwa Group's sales counters are required to pay rentals at a certain percentage of sales subject to a minimum rent. Except for the lease of the Group's warehouse with a term of ten years, leases are negotiated for a term ranging from one to six years.

The Shanghai Boshiwa Group as lessor

Property rental income earned during the year ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010 was approximately RMB527,000, RMB521,000, RMB570,000, RMB281,000 (unaudited) and RMB292,000 respectively. The Shanghai Boshiwa Group's investment property are held for a fixed monthly rental purposes with a lease term of 10 years which will expire in 2014.

At the end of the reporting period, the Shanghai Boshiwa Group has contracted with tenants for the following future minimum lease payments.

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Within one year	548	570	593	605
In the second to fifth years inclusive	2,420	2,517	2,095	1,791
After five years	838	171	-	-
	<u>3,806</u>	<u>3,258</u>	<u>2,688</u>	<u>2,396</u>

36. RETIREMENT BENEFITS SCHEMES

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute 22% of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Shanghai Boshiwa Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

During the Reporting Periods, the total amounts contributed by the Shanghai Boshiwa Group to the scheme and charged to the consolidated statements of comprehensive income represent

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contribution payable to the scheme by the Shanghai Boshiwa Group at rate specified in the rules of the scheme and are as follows:

	Year ended December 31, 2007,			Year ended December 31, 2008,			Six months ended June 30,		
	Discontinued operations	Continuing operations	Total	Discontinued operations	Continuing operations	Total	Year ended December 31, 2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount contributed and charged to the consolidated statements of comprehensive income	<u>1,808</u>	<u>1,068</u>	<u>2,876</u>	<u>1,442</u>	<u>1,314</u>	<u>2,756</u>	<u>1,861</u>	<u>1,042</u>	<u>1,804</u>

As at December 31, 2007, 2008, 2009 and June 30, 2010, the contributions due that had not been paid over to the scheme were RMB176,000, RMB429,000, RMB80,000 and RMB170,000, respectively.

37. RELATED PARTY TRANSACTIONS

Save as disclosed in notes 26, 27, 30, 31 and 34, the Shanghai Boshiwa Group had the following transactions with related parties during the Reporting Periods:

Company name	Nature of transaction	Year ended December 31,			Six months ended June 30,	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Rongfeng	Sales of finished goods and raw materials	<u>3,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Rongfeng	Purchases of raw materials	<u>4,851</u>	<u>3,777</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pacific Leader	Purchases of finished goods	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,770</u>

The five highest paid individuals in note 12 are the management members. The remuneration of directors and key management members for the Reporting Periods is set out in note 12.

38. CONTINGENCIES

Prior to the introduction of Notice on Relevant Issues Concerning Approval Administration on Sale of Products by Foreign Invested Enterprises via Internet Websites or Automats issued by the General Office of the Ministry of Commerce of the PRC (“the MOFCOM”) on August 19, 2010, 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.

The Shanghai Boshiwa Group had not obtained such approval and ceased such business on June 28, 2010. According to relevant PRC regulations, relevant government authorities have the discretion to take actions against the Group, including confiscation of illegal gains (representing net

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revenue from online sales after deducting the purchase cost of the merchandises sold through online business) of RMB nil, RMB233,000, RMB2,290,000 and RMB3,161,000 for the year ended December 31, 2007, 2008 and 2009 and six months ended June 30, 2010 respectively and imposing a fine of no more than RMB500,000 for each year/period.

The Shanghai Boshiwa Group has disclosed this non-compliance to the Shanghai Commerce Committee and has not received any notification of penalty. No provision has been made by the Group for the Relevant Periods for confiscation of gains and fines as the probability the relevant government authorities taking actions against the Group and the amount of obligation cannot be estimated with sufficient reliability according to the legal opinion.

Yours faithfully

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong