Boshiwa

Boshiwa International Holding Limited
博士蛙國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1698)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

2010 ANNUAL RESULTS HIGHLIGHTS

Revenue increased by 123.5% to RMB1,408.2 million.

Profit before tax increased by 115.4% to RMB367.8 million.

Profit attributable to owners of the Company increased by 106.9% to RMB251.0 million.

Basic earnings per share attributable to ordinary shareholders increased by 75.3% to RMB15.23 cents.

Distribution of dividend equivalent to RMB1.4 cents per share.

The number of retail outlets increased by 74.7% to 1,555.

The board of directors (the "Directors") (the "Board") of Boshiwa International Holding Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010, together with comparative figures for the preceding financial year ended 31 December 2009. The consolidated results of the Group have been reviewed by the Company's audit committee.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	**2010**	2009
		RMB'000	*RMB'000*
Revenue	*2*	**1,408,219**	630,178
Cost of sales		**(782,497)**	(363,853)
Gross profit		**625,722**	266,325
Investment income	*3*	**2,157**	612
Other gains and losses	*3*	**9,130**	6,233
Distribution and selling expenses		**(171,030)**	(71,910)
Administrative and general expenses		**(76,494)**	(24,118)
Interest on borrowings wholly repayable within five years		**(21,677)**	(6,365)
Profit before tax	*4*	**367,808**	170,777
Income tax expense	*5*	**(116,796)**	(49,483)
Profit for the year attributable to owners of the Company		**251,012**	121,294
Other comprehensive expense for the year			
Fair value loss on available-for-sale investments		**(2,867)**	—
Total comprehensive income for the year attributable to owners of the Company		**248,145**	121,294
Earnings per share — basic *(RMB cents per share)*	*6*	**15.23**	8.69

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	NOTES	**2010**	2009
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**190,271**	81,286
Prepayments for acquisition of property, plant and equipment		**64,639**	92,700
Prepayments for acquisition of computer software		**24,150**	24,150
Prepaid lease payments — non-current		**6,151**	6,411
Investment property		**3,178**	3,299
Intangible assets		**10,727**	10,469
Loan receivables		**—**	38,610
Deferred tax assets		**9,474**	1,154
Investments in securities		**294,045**	—
Rental deposits		**7,253**	—
TOTAL NON-CURRENT ASSETS		**609,888**	258,079
CURRENT ASSETS			
Inventories		**354,047**	148,786
Trade and other receivables	*8*	**480,865**	298,338
Prepaid lease payments — current		**260**	260
Loan receivables		**19,000**	—
Investments in securities		**31,789**	—
Amount due from a former shareholder		**—**	1,029
Amount due from a related party		**2,280**	—
Pledged bank deposits		**2,625**	25,000
Bank balances and cash		**1,690,155**	65,762
TOTAL CURRENT ASSETS		**2,581,021**	539,175
TOTAL ASSETS		**3,190,909**	797,254

	NOTES	2010 RMB'000	2009 RMB'000
CURRENT LIABILITIES			
Trade and other payables	9	**203,299**	115,706
Tax liabilities		**71,193**	39,153
Dividends payable		**—**	27,058
Short-term borrowings		**10,000**	263,800
Amount due to a former shareholder		**—**	680
Deferred revenue		**24,752**	—
TOTAL CURRENT LIABILITIES		**309,244**	446,397
Net current assets		**2,271,777**	92,778
Total assets less current liabilities		**2,881,665**	350,857
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,500**	9,553
Total net assets		**2,880,165**	341,304
CAPITAL AND RESERVES			
Share capital	10	**904**	1
Reserves		**2,879,261**	341,303
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**2,880,165**	341,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GROUP RESTUCTURING AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Boshiwa International Holding Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of Cayman Islands on 24 March 2009. Its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 29 September 2010. The address of the Company's registered office is Equity Trust Company (Cayman) Ltd, 1st Floor, Windward 1, Regatta Office Park, P.O. Box 10338, Grand Cayman KY1-1003, Cayman Islands. The Company is an investment holding company. The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are designing, sourcing and marketing of children's products.

Pursuant to a group restructuring to rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange ("Group Restructuring"), on 3 September 2009, Great Dragon (Asia Pacific) Limited ("Great Dragon"), the then shareholder of both the Company and Shanghai Rongchen Boshiwa (Group) Co., Ltd. ("Shanghai Boshiwa"), transferred its 100% equity interest in Shanghai Boshiwa to Pacific Leader International Holdings Limited ("Pacific Leader"), the wholly-owned subsidiary of Kingman Holdings Limited ("Kingman")(which in turn is a wholly-owned subsidiary of the Company), for a consideration of US$18,000,000 (equivalent to RMB140,480,000). The consideration was settled by issuing 100,000 ordinary shares of the Company, amounting to HK$50 (approximately RMB44), to Great Dragon. Details of the Group Restructuring were set out in the section headed "History and Corporate Structure" of the prospectus dated 16 September 2010 issued by the Company (the "Prospectus"). The Group Restructuring is a reorganisation of companies under common control. Accordingly, the Group resulting from the Group Restructuring including the Company and its subsidiaries is regarded as a continuing entity.

The consolidated statement of comprehensive income, the consolidated statement of cash flows and consolidated statement of changes in equity which are prepared in accordance with the principles of merger accounting, for the year ended 31 December 2009 include the financial statements of the companies now comprising the Group as if the group structure upon the completion of the Group Restructuring had been in existence throughout the year ended 31 December 2009 or since their respective dates of incorporation or establishment whichever is the shorter period.

2. REVENUE AND SEGMENT INFORMATION

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

Mr. Zhong Zheng Yong, the chairman and chief operating decision maker of the Group, regularly reviews revenue analysis by major products and the 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 People's Republic of China ("PRC") and which also conform, in material respects, to the International Financial Reporting Standards, to make decisions about resource 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 Group's revenue from external customers is derived from the PRC and the Group's non-current assets are also substantially located in the PRC, the place of domicile of the Group's operating entities.

Revenue analysed by major products categories are as follows:

	2010	2009
	RMB'000	*RMB'000*
Revenue from:		
Children's apparel and accessories	**1,005,640**	569,115
Other children's products	**402,579**	61,043
Others	**—**	20
Total revenue	**1,408,219**	630,178

Information about major customer

No individual customer contributed over 10% of the total revenue of the Group during both years.

3. INVESTMENT INCOME AND OTHER GAINS AND LOSSES

	2010	2009
	RMB'000	*RMB'000*
Investment income:		
Interest on bank deposits	**927**	42
Investment income from available-for-sale investments	**586**	—
Investment income from held-to-maturity investment	**51**	—
Rentals from investment property	**593**	570
	2,157	612
Other gains and losses:		
Loss on disposal of property, plant and equipment	**(31)**	(184)
Net foreign exchange losses	**(23,906)**	(257)
Government grants *(note)*	**34,237**	6,813
Others	**(1,170)**	(139)
	9,130	6,233
	11,287	6,845

Note: Included in governments grants is an amount of RMB33,587,000 (2009: RMB6,701,204) received from Shanghai Yangpu District Finance Bureau (上海市楊浦區財政局) as tax refunds.

4. PROFIT BEFORE TAX

	2010	2009
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration, including retirement benefit schemes contributions	**6,416**	1,648
Other staff costs	**34,594**	17,950
Other staff's retirement benefits scheme contributions	**3,119**	1,813
Total staff costs	**44,129**	21,411
(Recovery of) allowance for doubtful debts	**(1,269)**	2,003
Cost of inventories recognised as expenses	**772,746**	363,791
Write-down of inventories (included in cost of sales)	**9,751**	62
Depreciation of property, plant, and equipment	**16,653**	6,241
Depreciation of investment property	**121**	121
Minimum operating lease rentals in respect of rented premises	**33,119**	6,695
Contingent operating lease rentals (mainly concessionaire fees) in respect of rented premises	**36,214**	24,361
Amortisation of prepaid lease payments	**260**	258
Research expenses	**3,765**	2,630
Auditors' remuneration	**1,129**	207
Gross rental income less direct operating expenses from investment property	**(593)**	(570)

5. INCOME TAX EXPENSE

	2010	2009
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**123,616**	44,228
Deferred tax (credit) charge	**(6,820)**	5,255
Total tax expense	**116,796**	49,483

The Company and Kingman Holdings are tax exempted companies incorporated in the Cayman Islands and BVI, respectively, and had no operation in either the PRC and Hong Kong. Pacific Leader was incorporated in Hong Kong, where the applicable income tax rate is 16.5% for both years ended 31 December 2010 and 2009.

The applicable income tax rate for Shanghai Boshiwa , Shanghai Rongchen, Boshiwa Enterprise and Shanghai Desheng is 25% for both years ended 31 December 2010 and 2009.

Under the EIT Law of the PRC, withholding income tax is applicable from 1 January 2008 to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, as applicable. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5%. Deferred tax on withholding income tax has been provided for the undistributed profits of PRC entities, amounting to RMB1,500,000 (2009: RMB6,021,000) for the year ended 31 December 2010, in accordance with the dividend amount the Directors anticipate to distribute out of such profits of its PRC subsidiaries in the foreseeable future. These deferred taxation provided in 2009 arising from the withholding tax have been paid in 2010 due to the declaration of dividends to non-PRC tax resident enterprises.

The tax charge for the year can be reconciled to profit before tax per the consolidated statement of comprehensive income as follows:

	2010	2009
	RMB'000	*RMB'000*
Profit before tax	**367,808**	170,777
Income tax expense at PRC income tax rate of 25%	**91,952**	42,694
Tax effect of expenses not deductible for tax purpose	**17,266**	750
Deferred tax on withholding income tax on undistributed profits	**1,500**	6,021
Income tax on dividends distributed by the Company's PRC subsidiary during the year (not provided in the prior year)	**6,078**	—
Others	**—**	18
Taxation for the year	**116,796**	49,483

6. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the followings:

	2010	2009
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**251,012**	121,294
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,647,876,712**	1,395,804,073

For the year ended 31 December 2010, the weighted average number of ordinary shares has been adjusted retrospectively for the 1,499,800,000 shares issued pursuant to the capitalisation issue. In addition, the effect of 575,000,000 shares issued under public offering has also been included.

For the year ended 31 December 2009, the weighted average number of ordinary shares has been adjusted retrospectively the 200,000 shares issued at the date of incorporation and pursuant to the Group Restructuring and included the effect of the 1,499,800,000 shares issued pursuant to the capitalisation issue.

No diluted earnings per share have been presented as the Company has no potential dilutive ordinary shares outstanding during both years.

7. DIVIDENDS

	2010	2009
	RMB'000	*RMB'000*
Dividends declared for the year	**257,000**	2,802

Pursuant to the resolutions of Board meetings dated 15 July 2009 and 30 June 2010, the Company declared dividends of approximately of RMB2,802,000 and RMB257,000,000, respectively.

A final dividend equivalent to RMB0.014 per share has been proposed by the Directors and is subject to approval by shareholders in general meeting.

8. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**289,263**	274,484
Less: Allowance for doubtful debts	**(1,008)**	(3,436)
	288,255	271,048
Advance payments to suppliers	**153,468**	19,596
Other receivables	**38,284**	5,248
Less: Allowance for other receivables	**(1,533)**	(374)
Rental deposits	**2,391**	2,820
	480,865	298,338

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

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

	2010	2009
	RMB'000	*RMB'000*
0 to 30 days	**162,200**	100,649
31 to 90 days	**95,660**	98,837
91 to 180 days	**18,646**	55,777
Over 180 days	**11,749**	15,785
	288,255	271,048

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of RMB12,286,000 as at 31 December 2010 (2009: RMB15,789,000) which are past due for which the Group has not provided for impairment loss.

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

	2010	2009
	RMB'000	*RMB'000*
90 to 180 days	**594**	4
Over 180 days	**11,692**	15,785
	12,286	15,789

Other receivables mainly represented cash received by distributors relating to sales of prepaid cards, which were unsecured and non-interest bearing.

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

Movement in the allowance for doubtful debts:

	2010	2009
	RMB'000	*RMB'000*
Balance at beginning of the year	**3,810**	1,807
(Decrease) increase in allowance recognised in consolidated statement of comprehensive income	**(1,269)**	2,003
Balance at end of the year	**2,541**	3,810

9. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**70,338**	77,303
Value-added tax payables	**45,507**	25,868
Payroll payables	**9,037**	4,379
Advance payments from customers	**21,150**	809
Other payables	**44,976**	7,160
Accruals	**12,291**	187
	203,299	115,706

As at 31 December 2010, other payables mainly represented payable for initial public offering expenses.

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

	2010	2009
	RMB'000	*RMB'000*
0 to 90 days	**67,872**	76,397
91 to 180 days	**1,269**	649
Over 180 days	**1,197**	257
	70,338	77,303

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

10. SHARE CAPITAL

	Number of shares	Share capital
		HK$
Ordinary shares of HK$0.0005 each		
Authorised:		
At incorporation, 31 December 2009 and 1 January 2010	200,000,000	100,000
Increase in authorised share capital *(note ii)*	199,800,000,000	99,900,000
At 31 December 2010	200,000,000,000	100,000,000
Issued and fully paid:		
At incorporation	100,000	50
Issued on 3 September 2009 *(note i)*	100,000	50
At 31 December 2009	200,000	100
Capitalisation issue *(note ii)*	1,499,800,000	749,900
Issue of shares pursuant to the initial public offering *(note iii)*	575,000,000	287,500
At 31 December 2010	2,075,000,000	1,037,500

	2010	2009
	RMB'000	*RMB'000*
Presented in RMB		
Share capital	**904**	1

The movements in the Company's authorised and issued ordinary share capital during the years ended 31 December 2009 and 2010 are as follows:

(i) On 3 September 2009, as part of the Group Restructuring, Great Dragon, the then shareholder of both the Company and Shanghai Boshiwa, transferred its 100% equity interest in Shanghai Boshiwa to Pacific Leader for a consideration of US$18 millions (approximately RMB140,480,000). The consideration was settled by issuing 100,000 ordinary shares of the Company, amounting to HK$50 (approximately RMB44), to Great Dragon.

(ii) Pursuant to written resolutions of all the shareholders passed on 8 September 2010, the authorised share capital of the Company was increased from HK$100,000 (divided into 200,000,000 shares of HK$0.0005 each) to HK$100,000,000 (divided into 200,000,000,000 shares of HK$0.0005 each) by creation of 199,800,000,000 shares of HK$0.0005 each, which rank pari passu in all respects with the shares then in issue. In addition, the Directors were authorised, and resolved, to capitalise HK$749,900 (approximately RMB655,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 1,499,800,000 shares.

(iii) On 29 and 30 September 2010, an aggregate of 575,000,000 shares of HK$0.0005 each of the Company, amounted to HK$287,500 (approximately RMB248,000), were issued at HK$4.98 (equivalent to RMB4.29) per share by way of placing and public offering.

All shares issued rank pari passu with other shares in issue in all respects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Market Review

China surpassed Japan in 2010 to become the world's second largest economy, and the growth of China's economy is closely tied to the global economy. The Chinese government launched a series of policies to improve people's income, boost domestic demand and stimulate consumption, which further expanded the scale of the retail consumer market in China. According to the statistics of related authorities, China had over 250 million children under 14 years of age, representing one of the countries with the largest number of children consumers in the world. According to the research report provided by Frost & Sullivan, the market scale of children's consumer products of China exceeded RMB200 billion in 2010, and will continue to expand at a compound annual growth rate (CAGR) of up to approximately 20%. Benefited from China's new round of baby boom, changes in the pattern of household consumption of the post-eighties generation and "one-child" policy, our Group (means Boshiwa International Holding Limited (the "Company") and its subsidiaries") captured a good opportunity of development in the past year.

Business Review

There was a substantial increase in the number of stores of our proprietary brands, Boshiwa and Baby^2 and Dr. Frog, and the sales volume and profitability of each brand store were also improved significantly in the year of 2010. During the year, the Group introduced cartoon brands, such as Thomas and Friends and Bob the Builder, and sports brand, such as Manchester United, Barcelona and Juventus, which further enriched our brand portfolio. These brands are all endowed with unique brand culture and different market positioning. Following closely the market demands, our Group developed a wide range of children's apparel, footwear and accessories products to meet the needs of different consumer groups, and these products proved to be popular among sellers. Besides, our licensed brand, NBA, which was introduced at the end of 2009, also achieved sound results during the year.

Our diversified sales channels developed rapidly over the year. By the end of 2010, our Group had 1,555 (2009: 890) retails outlets, representing an increase of 74.7%, among which department store concessions increased by 618 (2009: 859) or 71.9%; newly-added 17 Boshiwa street shops (2009: 12) or 141.7%; Boshiwa 365 stores increased by 20 (2009: 16) or 125.0%; flagship stores increased by 10 (2009: 3) or 333.3%.

Financial Review

The Group recorded significant growth for 2010 annual results, and achieved more than 100% growth in revenue and profit before tax. As of 31 December 2010, our revenue amounted to RMB1,408.2 million (2009: RMB630.2 million), representing an increase of 123.5%; profit before tax amounted to RMB367.8 million (2009: RMB170.8 million), representing an increase of 115.4%. The profits attributable to our equity holders amounted to RMB251.0 million (2009: RMB121.3 million), representing an increase of 106.9%.

Revenue

The revenue of our Group increased by 123.5% from RMB630.2 million for the year ended 31 December 2009 to RMB1,408.2 million for the year ended 31 December 2010, primarily as a result of a rapid increase in our revenue derived from sales of children's apparel, footwear and accessories and other children's products. This increase was primarily attributable to the increase in sales volume resulting from the significant expansion of our sales network, including the addition of 5 flagship stores, 6 Boshiwa 365 stores, 8 street shops and 254 department store concessions, which are all self-managed, and the addition of 5 flagship stores, 14 Boshiwa 365 stores, 9 street shops and 364 department store concessions, which are all operated by authorised third-party, and the increase in our sales per square meter during the year. In addition, we expanded our product offerings during the year of 2010 to include a range of other children's products, which helped to attract additional customers to our retail outlets. These customers also purchased our children's apparel, footwear and accessories, which contributed to an increase in our revenue. The revenues derived from sales of children's apparel, footwear and accessories and other children's products increased from RMB569.1 million and RMB61.1 million in 2009 to RMB1,005.6 million and RMB402.6 million in 2010.

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

	Year ended 31 December				
	2010		2009		
	Revenue *(RMB million)*	**% of revenue**	Revenue *(RMB million)*	% of revenue	**Growth rate %**
By product category					
Children's apparel, footwear and accessories	**1,005.6**	**71.4**	569.1	90.3	**76.7**
Other children's products	**402.6**	**28.6**	61.1	9.7	**558.9**
Total	**1,408.2**	**100.0**	630.2	100.0	**123.5**

Cost of Sales

Our cost of sales only consists of costs for purchasing finished goods. Our cost of sales increased from RMB363.8 million in 2009 to RMB782.5 million in 2010, representing a growth rate of 115.1%. The increase in cost of sales was less than the increase in sales revenue, primarily due to a significant increase in sales revenue of 2010 accompanied by an increase in purchases, and lower procurement costs obtained as result of our increased bargaining power. Meanwhile, we made an advance payment for purchasing part of children's clothes in 2010 to fix purchase price.

The sales cost of our children's apparel, footwear and accessories and other children's products increased from RMB315.3 million and RMB48.5 million in 2009 to RMB491.6 million and RMB290.9 million in 2010, respectively.

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

	Year ended 31 December				
	2010		2009		
	Cost of sales *(RMB million)*	**% of Cost of sales**	Cost of sales *(RMB million)*	% of Cost of sales	**Growth rate %**
By product category					
Children's apparel, footwear and accessories	**491.6**	**62.8**	315.4	86.7	**55.9**
Other children's products	**290.9**	**37.2**	48.5	13.3	**499.8**
Total	**782.5**	**100.0**	363.9	100.0	**115.1**

Gross Profit

Due to the above reasons, our gross profit increased significantly from RMB266.3 million in 2009 to RMB625.7 million in 2010. Our gross profit margin increased from 42.3% in 2009 to 44.4% in 2010, primarily due to less discounts provided by our Group to customers and dealers in 2010 compared with those of in 2009. Our gross profit derived from sales of children's apparel, footwear and accessories and other children's products increased from RMB253.8 million and RMB12.5 million in 2009 to RMB514.0 million and RMB111.7 million in 2010, respectively.

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

	Year ended 31 December				
	2010		2009		
	Gross profit *(RMB million)*	**Gross profit margin**	Gross profit *(RMB million)*	Gross profit margin	**Growth rate %**
By product category					
Children's apparel, footwear and accessories	**514.0**	**51.1**	253.8	44.6	**102.5**
Other children's products	**111.7**	**27.7**	12.5	20.5	**793.6**
Total	**625.7**	**44.4**	266.3	42.3	**135.0**

Investment Income and Other Gains and Losses

Investment income and other gains and losses of our Group increased from RMB6.8 million in 2009 to RMB11.3 million in 2010, primarily due to significant increase in government grants. The Group received grants of RMB34.2 million from the district government of Yangpu District in Shanghai, where our principal People's Republic of China ("PRC") operating subsidiary, Shanghai Boshiwa, is located. These grants are determined by Yangpu District and calculated based on our tax payments to Yangpu District.

In addition, our foreign exchange loss incurred in 2010 was RMB23.9 million (2009: RMB0.3 million), which was mainly due to the translation loss incurred from the capitals raised during the listing (which were denominated in HK dollar), as a result of the depreciation of HK dollar against RMB during the period from the time of raising funds to 31 December 2010.

Distribution and Selling Expenses

Our distribution and selling expenses primarily include concession fees and rental expenses, promotional event and advertisement expenses, salaries and benefits for sales staff, packaging and transportation expenses, depreciation and amortisation expenses and other expenses. Our distribution and selling expenses increased from RMB71.9 million in 2009 to RMB171.0 million in 2010, which was primarily due to the increase in concession fees and rental expense, salaries and benefits, depreciation and amortisation expenses, and other expenses. Our concession fees and rental expenses increased, primarily because we continuously expanded our sales network, including the addition of 5 flagship stores, 6 Boshiwa 365 stores, 8 street shops and 254 department store concessions, which are all self-managed and we started to pay the rental expenses for retail outlets operated by third parties. Our salaries and benefits increased primarily because we had more personnel due to the expansion of our business. Furthermore, our other expenses increased, primarily due to the increase in license fees as a result of the addition of licensed brands, such as NBA, Barcelona, Juventus, Manchester United, Bob the Builder and Thomas and Friends.

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

	Year ended 31 December				
	2010		2009		
	Expenses *(RMB million)*	**% of revenue**	Expenses *(RMB million)*	% of revenue	**Growth rate %**
Concession fees and rental expenses	**72.8**	**5.2**	31.0	4.9	**134.8**
Promotional event and advertisement	**28.3**	**2.0**	15.3	2.4	**85.0**
Salaries and benefits	**25.1**	**2.0**	13.8	2.2	**102.2**
Packaging and transportation expenses	**5.3**	**0.4**	3.3	0.5	**60.6**
Depreciation and amortisation	**11.8**	**0.8**	3.0	0.5	**293.3**
Others[(1)]	**27.7**	**1.9**	5.5	0.9	**352.7**
Total	**171.0**	**12.3**	71.9	11.4	**137.8**

Note:

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

Administrative and General Expenses

Our administrative and general expenses primarily consist of salaries and benefits for managerial personnel and administrative personnel, depreciation and amortisation expenses, research and development expenses, advertisement and exhibition expenses, professional fees and others. Our administrative and general expenses increased from RMB22.7 million in 2009 to RMB76.5 million in 2010. The increase in administrative and general expenses was mainly due to an increase in salaries and benefits, professional fees and other expenses. Our salaries and benefit increased, because we added a significant number of administrative personnel as our business expanded. Our professional fees increased, primarily because we incurred intermediary costs during the listing of our Group. Other expenses increased, primarily due to the increase in travel expenses, overseas consulting fees and incurrence of travel expenses for listing (including travel expenses for intermediary agency undertaken by our Group), conference fees and printing expenses as we continuously increased overseas purchases.

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

	Year ended 31 December				
	2010		2009		
	Expenses *(RMB million)*	**% of revenue**	Expenses *(RMB million)*	% of revenue	**Growth rate %**
Salaries and benefits	**19.0**	**1.4**	7.6	1.2	**150.0**
Depreciation and amortisation	**5.2**	**0.4**	3.5	0.6	**48.6**
R&D	**3.4**	**0.2**	2.6	0.4	**30.8**
Advertisement and exhibition	**1.6**	**0.1**	1.8	0.3	**(11.1)**
Professional fees	**27.0**	**1.9**	0.3	0.0	**8,900.0**
Others(1)	**20.3**	**1.4**	6.9	1.1	**194.2**
Total	76.5	5.4	22.7	3.6	237.0

Note:

(1) Others primarily include travel expenses, consulting fees, conference fees and printing expenses.

Finance Costs

Our finance costs in 2010 was RMB21.7 million, compared with RMB6.4 million in 2009. The increase in finance costs was primarily due to interest expenses. Our interest expenses on loan from BOCOM International Holdings Company Limited received at the end of 2009 mostly occurred in 2010.

Income Tax Expense

Our income tax expenses occurred in 2009 and 2010 were RMB49.5 million and RMB116.8 million, respectively. The increase in income tax expenses was mainly due to the increase in our taxable income. Our effective tax rates were 29.0% and 31.8% as at 31 December 2009 and 31 December 2010, respectively. The increase in effective tax rate was primarily due to withholding tax occurred as a result of making the payment of dividends prior to the listing.

Profit for the Year

Due to the above reasons, our profit increased by RMB129.7 million from RMB121.3 million in 2009 to RMB251.0 million in 2010.

Analysis on Turnover Days of Inventory, Trade Receivables and Trade Payables

The table below sets forth the turnover days of our inventories, trade receivables and trade payables for the periods indicate:

	For the year ended 31 December 2010 *(number of days)*	For the year ended 31 December 2009 *(number of days)*
Average turnover days of inventory	**117**	119
Average turnover days of trade receivables	**72**	106
Average turnover days of trade payables	**34**	50

Inventory

Our inventory generally consisted of the purchase of finished goods and certain raw materials (including the packaging materials) only. The Group's average turnover days of inventory in 2010 and 2009 are 117 days and 119 days, respectively.

The table below sets forth a breakdown of our inventory for the periods indicated:

	For the year ended 31 December 2010 *(RMB million)*	For the year ended 31 December 2009 *(RMB million)*
Raw materials	**3.9**	3.3
Finished products	**350.1**	145.5
	354.0	148.8

As at 31 December 2010 and 31 December 2009, the Group had inventory amounting to RMB354.0 million and RMB148.8 million respectively. The increase in inventory was mainly due to the Group's business expansion, leading to the increase in number of retail outlets.

Trade Receivables

For the year ended 31 December 2010 and for the year ended 31 December 2009, the turnover days of our trade receivables were 72 days and 106 days respectively. Our trade receivables primarily consisted of receivables from department stores relating to sales by our concessions, the receivables from authorised third-party retailers that operate our retail outlets and the receivables from wholesaler engaged in wholesale and distribution business. The decrease in turnover days of trade receivables was mainly due to the increased efforts of the Group in collecting trade receivables. Our credit policies had no material movement.

We normally grant credit periods up to 180 days to our customers, in which majority of the customers had a credit periods of 90 days. Moreover, we adopted a series of policies and measures for managing the recovery of trade receivables, including the implementation of more stringent credit standards, credit inspection and close monitoring of outstanding trade receivables and bills.

As at 31 December 2010 and 31 December 2009, our trade receivables were RMB288.3 million and RMB271.0 million, maintaining a stable level.

Trade Payables

For the year ended 31 December 2010 and 31 December 2009, the turnover days of our trade receivables were 34 days and 50 days respectively. Our trade payables were derived primarily from payables relating to the purchase of raw materials and finished products. The payment periods of most of our raw materials and finished products were 90 days upon delivery and acceptance of the products.

As at 31 December 2010 and 31 December 2009, our trade payables were RMB70.3 million and RMB77.3 million respectively. In 2010, our trade payables decreased by RMB7.0 million over the year of 2009, mainly due to the adoption of prepayment method for certain purchase of children's apparel so as to fix the purchase price.

Net Current Assets and Liabilities Analysis

The table below sets forth the current asset and current liability positions of the Group as of the dates indicated:

	For the year ended 31 December 2010 ***(RMB million)***	For the year ended 31 December 2009 *(RMB million)*
Current assets		
Inventories	**354.0**	148.8
Trade and other receivables	**480.8**	298.3
Prepaid lease payments — current	**0.3**	0.3
Loan receivables	**19.0**	—
Investments in securities	**31.8**	—
Amount due from a former shareholder	**—**	1.0
Amount due from a related party	**2.3**	—
Pledged bank deposits	**2.6**	25.0
Bank balance and cash	**1,690.2**	65.8
Total current assets	**2,581.0**	539.2
Current liabilities		
Trade and other payables	**203.3**	115.7
Tax liabilities	**71.2**	39.1
Dividend payables	**—**	27.1
Short-term borrowings	**10.0**	263.8
Amount due to a former shareholder	**—**	0.7
Deferred revenue	**24.7**	—
Total current liabilities	**309.2**	446.4

The Group maintained sound and healthy financial positions. As at 31 December 2010, the Group had working capital amounting to RMB2,271.8 million, representing an increase by 2,348.1% as compared with that of 31 December 2009. The increase was mainly due to the increase in cash and bank deposits and decrease in short-term borrowings.

Indebtedness

Borrowings

The following table sets forth information of the Group's bank and other borrowings:

	For the year ended 31 December 2010 *(RMB million)*	For the year ended 31 December 2009 *(RMB million)*
Secured bank borrowings due within one year	**10.0**	191.2
Secured other borrowing due within one year	**—**	72.6

All of our bank and other borrowings are at fixed interest rates and repayable within one year.

On 31 December 2010, the Group's bank borrowings due within one year were secured by the pledged bank deposits and guarantee by Shanghai Yangpu District Small-To-Medium Enterprise Guarantee Centre (上海市楊浦區中小企業擔保中心). Our pledged bank deposits were RMB2.6 million. The decrease in borrowings was mainly due to the Group's ample capital as well as the increasing interest rate for RMB borrowings. The Group did not renew the expired bank borrowings so as to reduce the finance costs.

The following discussion should be read along with the financial information and its notes of the Group, which were included in the annual report of the Company.

Interest Rate Risk

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

Other Price Risk

The Group is exposed to investment funds price risk in relation to its available-for-sale investments. The Group currently does not have a price risk hedging policy as the management considers the Group is not exposed to significant price risk. The management will continue to monitor price risk exposure and consider hedging against it should the need arises.

If the prices of the respective investment funds had been 5% (2009: Nil) higher/lower, investments revaluation reserve would increase/decrease by approximately RMB14.7 millions (2009: Nil).

Credit Risk

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

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

We have concentration of credit risk in respect of bank balances. Approximately 99% and 93% of our bank balances as of 31 December 2009 and 31 December 2010, respectively, were deposited at two of the five biggest state-owned banks in the PRC and the credit risk relating to these liquid funds is limited.

We have concentration of credit risk in respect of loan receivables. Approximately 100% of our loan receivables as of 31 December 2010 was provided to two long-term suppliers (2009: five). Our management reviews the counterparties' financial status periodically and continuously monitors our level of exposure to ensure that follow-up actions and collection actions are taken promptly to lower our exposure.

Foreign Currency Risk

The Company primarily operate in the PRC and the Renminbi ("RMB") is the functional currency of most of the principal subsidiaries. Certain of the bank balances, borrowings sales and purchases are denominated in Hong Kong Dollars, Japanese Yen and United States Dollars, which are currencies other than the functional currency of the Group entities and expose the Group to foreign currency risk.

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

Liquidity Risk

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

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

Liquidity and Financial Resources

As at 31 December 2010, cash and bank balance of the Group amounted to approximately RMB1,690.2 million (2009: approximately RMB65.8 million).

As at 31 December 2010, bank borrowings of the Group amount to approximately RMB10.0 million (2009: RMB191.2 million), pledged by the bank deposits of the Group and guaranteed by Shanghai Yangpu District Small-To-Medium Enterprise Guarantee Centre (上海市楊浦區中小企業擔保中心) (2009: RMB191.2 million, pledged by the bank deposits and by the buildings, the land use right, and the investment property held by the Group).

During 2010, our net cash generated by operations amounted to RMB40.8 million, representing an increase of RMB39.8 million as compared with that of 2009. The operational cash flow of the Group significantly increased.

For the year ended 31 December 2010, our net cash used in investing activities amounted to RMB422.6 million (2009: RMB174.9 million), in which RMB98.1 million was used in purchasing fixed assets and improve leasing properties and RMB328.7 million was used in external investment.

During the year ended 31 December 2010, our net cash generated from financing activities amounted to RMB2,028.3 million, representing an increase of RMB1,811.6 million as compared with that of 2009, mainly due to the capital raised from our listing.

Gearing ratio is defined as the net liabilities (presented as borrowings, excluding time deposits as well as bank balance and cash), divided by the shareholders' interest. As at 31 December 2010, we had strong financial positions with net cash reaching RMB1,682.8 million (2009: net liabilities of RMB173.0 million). Therefore, no gearing ratio was presented.

Charges and Contingent Liabilities

Other than the secured bank borrowings mentioned above, as at 31 December 2010, the Group had other contingent liabilities as follows:

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 19 August 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 Group had not obtained such approval and ceased such business on 28 June 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 revenue from online sales after deducting the purchase cost of the merchandises sold through online business) of RMB2,290,000 and RMB3,161,000 for the year ended 31 December 2009 and 2010 respectively and imposing a fine no more than RMB500,000 for each year.

The 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 year for confiscation of gain and fines as the probability that the relevant government authorities taking actions against the Group and amount of obligation cannot be estimated with sufficient reliability according to the legal opinion.

Employment and Remuneration Policy

The Company recognised the importance of maintaining good relationship with the employees and offered them with highly competitive remuneration packages. The remuneration paid to employees includes salaries and allowances.

The Group's remuneration policy was determined by the performance of the individual staff and was reviewed regularly. The Group also offered discretionary bonus to the employees for encouraging them to make contribution to the Group and the bonus was determined by the profitability positions. The major objectives of the remuneration packages for the Group's executive Directors were to establish a link between their compensation and results according to their achieved goals set by the Company, so as to retain and encourage the executive Directors.

As at 31 December 2010, the Group had 2,097 employees (including Directors). For the year ended 31 December 2010, the total salaries and related costs (including Directors' fees) amounted to approximately RMB44.1 million (2009: approximately RMB21.4 million). The Company maintained a share options scheme with the aim of providing eligible parties with incentives and allowances for their contribution to the Group.

PROSPECT

2011 will be a year full of opportunities and challenges, and it will also be a critical time for the Group to lay a stable foundation for future development. Facing the ever-changing market environment globally, the Group will capture this golden chance where the PRC government stimulates domestic consumption, putting consumption as the main driving force for China's economic development. Leveraging our advantage of sufficient capital raised from previous listing, we will strengthen the development of the target market of mid-high-end children consumable goods, while adhering to our innovative application and cutting-edge technology, so as to further enhance the market permeability of our brands.

By focusing on the expansion of the national wide interchange sales network, the Group will put Boshiwa 365 stores and Boshiwa Flagship Stores as the key of our development. The Group will endeavor to merge the philosophy of "4 networks in 1, human-oriented; 5As strategy, shops as core" into our retail shops, in order to realize a integrated platform for diversified children consumable goods in our shops, meet individual customer needs in all aspects, provide experiencing services to cater customer needs effectively, materializing a one-stop shopping experience and supply chain of products offering to customers.

The Group will plan and establish the Boshiwa global children consumable goods research and development center actively. Being customers-oriented as usual, we strive to deeply understand customers' actions, optimize customers' experiences, improve their brand loyalty to us, cater for customers' needs, explore customers' values and strengthen our anti-marketing, resulted in a sales network of member-oriented. Through internet, mobile internet, twitter and other means, we will satisfy members' demands for products being good for sale and personalized services via the platform of retail shops. Besides, the Group will introduce product delivery service through sales shops by establishing and upgrading modern logistics with "The Internet of Things" as the key.

The Group will be committed to introducing popular brands of cartoon characters and sports in China and overseas, and hence further enrich Boshiwa brand portfolio. The Group will also examine outstanding assets resources in China and overseas for industrial merger and acquisition when appropriate, so as to bring excellent children consumable assets from all over the world to China for China's children consumer services, so as to fully strengthen the quality of life of children consumers in China.

OTHER INFORMATION

On 30 September 2010, the Company announced that the over-allotment option has been fully exercised by the joint bookrunners (UBS AG, Hong Kong Branch, Credit Suisse (Hong Kong) Limited, BOCOM International Securities Limited and Deutsche Bank AG, Hong Kong Branch) on behalf of the international underwriters on 30 September 2010 in respect of an aggregate of 75,000,000 shares of the Company (the "Shares"), representing 15% of the Shares initially available under the global offering before any exercise of the over-allotment option, for the purpose of covering over-allocations in the international placing. Subsequently, the over-allotment Shares was issued and allotted on 6 October 2010 by the Company at HK$4.98 per Share (excluding brokerage of 1%, Securities Futures Commission transaction levy of 0.003% and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") trading fee of 0.005%), being the offer price per Share in connection with the global offering.

The Company pursuant to Note (3) to Rule 10.07(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), on 24 December 2010 after trading hours, announced that Joyork International Limited entered into a share pledge agreement with UBS AG (the "Bank"), pursuant to which Joyork International Limited agreed to pledge 100,000,000 Shares, (representing approximately 4.82% of the issued share capital of the Company) out of 602,400,000 Shares (representing approximately 29.03% of the issued share capital of the Company) held by it in favor of the Bank as security for a three-month term loan facility, with an option to extend such facility on materially the same terms and conditions for another three months, of US$20,000,000 granted by the Bank to Joyork International Limited.

DIVIDENDS

The Directors recommended a payment of a final dividend equivalent to RMB1.4 cents per share for the year ended 31 December 2010. Such proposal is pending approval by the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on or before 30 June 2011. The record date and closure of books for determining entitlement to final dividends and attending the annual general meeting will be announced in due course.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2010, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except the issue mentioned in the following paragraph. According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. For the year ended 31 December 2010, Mr. Zhong Zheng Yong is both the chairman of the board of Directors (the "Board") and the chief executive officer of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The Board will review the need of appointing suitable candidate to assume the role of the chief executive officer when necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and all Directors have confirmed that they have complied with the Model Code throughout the period under review.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") is mainly responsible for making recommendations to the Board for various matters including the appointment and resignation of external auditors, reviewing the financial statements and the material opinions in those financial statements and monitoring the internal control procedures of the Company.

Currently, the Audit Committee consists of three members, namely Mr. Lee Ted Tak Tai, Dr. Jiang Chang Jian and Mr. Li Zhi Qiang. The chairman of the Audit Committee is Mr. Lee Ted Tak Tai, who has professional qualification in accounting.

The Audit Committee reviewed the accounting standards and practices adopted by the Group, and discussed with the management about the internal control and financial reporting matters, including reviewing the financial statements and annual results for the year of 2010.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, as at the date of this announcement, the Company has maintained the public float required by the Listing Rules.

AUDIT FINANCIAL STATEMENTS

The Group's consolidated financial statements have been audited by the Group's external auditors, Deloitte Touche Tohmatsu and they have issued an unqualified opinion.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2010 containing all the applicable information required by the Listing Rules will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company's website (http://www.boshiwa.cn/) in due course. Printed copies will be despatched to shareholders of the Company in due course.

APPRECIATE YOUR SUPPORT AND COMMITTED TO ACHIEVING THE GOAL

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all shareholders, our customers and employees of the Company for their continuous support and encouragement for the success of the Company. The Company is positioned in the children's product industry and is committed to use the highest quality and the strong product design and development capabilities, and fully utilize every opportunity to become the pioneer in the children's product industry, maximizing the value and returns to our shareholders.

By Order of the Board
Boshiwa International Holding Limited
Zhong Zheng Yong
Chairman

Hong Kong, 30 March 2011

As at the date of this announcement, the executive Directors are Mr. Zhong Zheng Yong and Ms. Chen Li Ping; the non-executive Directors are Mr. Chen Pei Qi and Mr. Li Shu Jun; and the independent non-executive Directors are Mr. Lee Ted Tak Tai, Dr. Jiang Chang Jian and Mr. Li Zhi Qiang.