The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited combined statements as of and for each of the three years ended 31 December 2008, 2009 and 2010 and the accompanying notes, all included in the Accountant's Report set out in Appendix I to this prospectus. We have prepared our financial information in accordance with International Financial Reporting Standards ("IFRSs").

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

OVERVIEW

Our 青蛙王子 (Frog Prince) brand is a leading domestic brand of children care products in China with the largest market shares in terms of retail sales value in moisturising lotion products, bath and shampoo products and oral care products, among all domestic brands in China in 2010[1]. We primarily design and provide a broad range of children care products under our own brand, including skin care products, body and hair care products, oral care products and diaper products, which are tailored for the mid-end market segment in China. In addition to children care products, we also provide baby care products, household hygiene products and adult care products under our own brand names and manufacture OEM products.

We have a nationwide and efficient sales network. We sell all our own-branded products through our distributors. Our distributors then distribute and resell our products to their sub-distributors and/or ultimate retailers. As at the Latest Practicable Date, we had a sales network with 173 distributors, through which we distribute our products to different types of retail stores, such as hypermarkets, supermarkets, mother and children products specialty stores and convenience stores, and covering all provinces, autonomous regions and municipalities in China. Leveraging on the sales network established by our 青蛙王子 (Frog Prince) brand, we also distribute our other product series, such as household hygiene products under our 雙飛劍 (Shuangfeijian) and 深呼吸 (Shenhuxi) brands.

We place great emphasis on the quality and safety of our products and implement stringent quality control measures throughout our whole production process. All of our baby care and children care products and household hygiene products currently in production are in compliance with the relevant national standards in China. In addition, to further assure the quality and safety of our products, we voluntarily engaged (i) Intertek (HK)[2] to conduct tests of all of our baby care and children care cosmetic products currently in production, which found that all products submitted to Intertek (HK) passed the tests relating to certain key parameters for safety and compliance of cosmetic products under the Cosmetics Directive in the European Union for cosmetics products; and (ii) Pony[3] to conduct additional independent tests of all of our household hygiene products currently in production, which found that all of them were in compliance with the relevant national standards in China.

Notes:

1. *According to Euromonitor, our children moisturising lotion products, children bath and shampoo products and children oral care products under our 青蛙王子 (Frog Prince) brand had the market shares in those three market segments of approximately 23.1%, 10.0% and 14.6%, respectively, in 2010. Our 青蛙王子 (Frog Prince) brand has the second largest market shares in terms of retail sales value in the children moisturising lotions products, children bath and shampoo products and children oral care products among all international and domestic brands in 2010.*
2. *As of 18 February 2011.*
3. *As of 16 February 2011.*

We have achieved significant growth in our overall revenue and net profit during the Track Record Period. Our revenue for the three years ended 31 December 2008, 2009 and 2010 were RMB474.0 million, RMB624.4 million and RMB838.0 million, respectively, representing a CAGR of 33.0% and our net profit during the same periods were RMB72.2 million, RMB91.8 million and RMB144.5 million, respectively, representing a CAGR of 41.5%.

Apart from marketing and selling our baby and children care products and household hygiene products under our own brands, we also engage in the manufacture of OEM products for our overseas customers. Different from our products under our own brands which are sold domestically, all our OEM products are sold to overseas customers. We either export those OEM products to our overseas customers on our own or through export agents engaged by us. Insofar as the Directors understand, our overseas customers will then sell the products to retailers or sub-distributors outside China. Our revenue generated from the sales of our OEM products represented approximately 13.4%, 12.1% and 9.0% of our total revenue for the three years ended 31 December 2008, 2009 and 2010, respectively. In order to maintain our relationships with our OEM customers, we will continue our OEM business and will accept orders if it is in the interest of our Group.

During the Track Record Period, all our overseas customers and export agents engaged by us were Independent Third Parties, except for Shuangfei (USA). For further details of the supply of our OEM products to Shuangfei (USA), please refer to the section headed "Connected Transactions" of this prospectus.

REORGANISATION AND BASIS OF PREPARATION

The operation of our Group were initially conducted through Fujian Shuangfei. Pursuant to the Reorganisation as detailed in the section headed "History and Reorganisation" in this prospectus, certain contractual arrangements were made between Prince Frog (China) and Fujian Shuangfei on 31 December 2009 to the effect that certain of the business, liabilities and assets of Fujian Shuangfei (the "**Transferred Operations**") were transferred to Prince Frog (China) effective from 1 January 2010.

Our Controlling Shareholders controlled the Transferred Operations transferred to us before the Reorganisation and continue to control the companies now comprising our Group after the Reorganisation. Their control is not transitory and, consequently, there was a continuation of the risks and benefits of the Transferred Operations to our Controlling Shareholders. As a result, the Reorganisation is considered as a business combination under common control. The combined financial statements were prepared using merger accounting as if the Transferred Operations had been operated by us and the current group structure had been in existence throughout the Track Record Period.

Accordingly, all the results related to the Transferred Operations of Fujian Shuangfei for the years ended 31 December 2008 and 2009 are combined. The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flow of our Group for the years ended 31 December 2008 and 2009 include the results of the Transferred Operations of Fujian Shuangfei and the companies now comprising our Group. The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flow of our Group for the year ended 31 December 2010 only include the results of the companies now comprising our Group.

The assets and liabilities which are related to the Transferred Operations are combined using their existing book values. The combined statements of financial position of our Group as of 31 December 2008 and 2009 has been prepared to present the state of affairs of the Transferred Operations of Fujian Shuangfei and the companies now comprising our Group as of those dates. The remaining assets retained by Fujian Shuangfei (the "**Retained Assets**") were treated as deemed appropriations to the equity holders of our Group on 1 January 2010 and have not been included in the combined statements of financial position as of 31 December 2010. The combined statements of financial position as of 31 December 2010 have been prepared to present the state of affairs of the companies now comprising our Group as of that date.

The Retained Assets on 1 January 2010 consisted of the following:

	RMB'000
Assets	
Property, plant and equipment	14,364
Prepaid land lease payments	4,019
Available-for-sale investments	550
Amounts due from related parties	54,014
Prepayments and other receivables	214
Pledged deposits	3,662
Cash and cash equivalents	108,392
	185,215
Liabilities	
Bills payables	3,662
Other payables and accruals	20,026
Interest-bearing bank borrowings	92,000
Tax payable	12,210
	127,898
Net assets	57,317

Our combined financial statements have been prepared in accordance with IFRSs on a historical cost basis. The financial statements of the subsidiaries are prepared for the same reporting year as our Company, using consistent accounting policies. Our combined financial statements are presented in Renminbi.

FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

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

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

Our financial condition and results of operations are affected by the economic development, macro-economic conditions and the disposable income levels of consumers in PRC. For the three years ended 31 December 2010, we derived a significant portion of our revenue from PRC. PRC economy experienced rapid growth from 2001 to 2010 and achieved a CAGR of approximately 15.4% in GDP. From 2001 to 2010, the per capita annual disposable income of households in China grew at a CAGR of approximately 12.1% and consumer spending as measured by retail market size grew at a CAGR of approximately 11.5% respectively. Our results of operations will continue to depend on the growth of PRC economy, the levels of disposable income and consumer spending in PRC.

Brand recognition

We believe that brand recognition is important to consumers' purchasing decisions. Our business and operating results have been and will continue to be affected by our ability to maintain and enhance recognition of our brands. We currently offer a wide range of children care products and certain adult's personal care products under our 青蛙王子 (Frog Prince) brand. We have successfully built strong brand recognition and brand popularity among our targeted consumers. As we gradually built our brand names and gained brand recognition in the children care products, revenue derived from our 青蛙王子 (Frog Prince) brand increased from RMB320.3 million in the year ended 31 December 2008 to RMB432.6 million in the year ended 31 December 2009 and RMB578.9 million in the year ended 31 December 2010, representing a CAGR of 34.4%. We believe that high recognition of our brands help to attract more customer and also boost sales of our products.

Expansion of our sales network and performance of our distributors

Our ability to increase sales is affected by the number and performance of our distributors. As of 31 December 2008, 2009, 2010 and Latest Practicable Date, we had a total of 107, 146, 160 and 173 distributors, respectively. We conduct our sales through our third-party distributors which distribute and resell our products to their sub-distributors and/or retailers all over China. We intend to continue to work with our distributors to further expand our sales network. Our ability to cooperate with our existing distributors and improve the sales efficiency of them will impact our ability to further expand our sales network and increase our sales.

Seasonality

Our results of operations are affected by seasonal fluctuations in demand for our products. We generally experience higher sales of our skin care products in winters while we sell more body and hair care products in summers. As our skin care products contributed a significant portion of our sales, we generally record higher sales and results of operation in the second half of the year. Unexpected and abnormal changes in weather may also affect the sales of our products that are timed for release in a particular season. Furthermore, our sales are also affected by national holidays, such as the Chinese New Year holidays in the early spring, the Labour Day holiday in early May, the International Children's Day in early June and the National Day holidays in early October. As a result, we believe that comparisons of our sales, operating results and net profit over any interim periods may not be meaningful.

Taxation

Our profitability and financial performance is affected by the level of taxation that we pay on our profit and the preferential tax treatments to which we are entitled. On 16 March 2007, the National People's Congress of PRC promulgated the Enterprise Income Tax Law of PRC, which took effect on 1 January 2008. The implementation of this tax law has an effect on the level of taxation that we pay on our profit and the preferential tax treatments to which we are entitled. In accordance with the aforementioned law and regulations, a unified enterprise income tax rate of 25% will be applied equally to both domestic enterprises and foreign-invested enterprises.

Enterprises that are currently entitled to exemptions or reductions from the standard rate for fixed term may continue to enjoy such treatment until fixed term expires. Upon the expiry of the existing preferential tax treatments, our PRC subsidiaries will be subject to a higher enterprise income tax rate and our financial performance will be affected. Effective from 1 January 2008, Prince Frog (China) was exempted from PRC corporate income tax from 1 January 2008 to 31 December 2009 and is entitled to 50% reduction of the prevailing tax rate from 1 January 2010 to 31 December 2012. With effective from 1 January 2013, the applicable tax rate is 25%.

Prices of raw materials and packaging materials

Our business and profitability depend in part on our ability to obtain sufficient quantities of the necessary raw materials and packaging at commercially acceptable prices in a timely manner. In the past, we have generally been able to pass on increased costs of raw materials and packaging to our customers as we adopted a cost plus approach in pricing our products, and such increases have not impacted our margins. If we are unable to pass on the increased costs to our customers in the future, our business, financial condition and results of operations may be materially and adversely affected. See also "Risk Factors — Risks Relating to Our Business — We do not maintain a large volume of raw materials and packaging materials at our production facility and thus, we are vulnerable to increase in the prices of raw materials and packaging materials and our cost of sales may increase".

Product mix

We have a diversified product portfolio consisting of a wide range of product series, including skin care products, body and hair care products, oral care products and diaper products. Changes in the mix of products we sell, whether by brand or by product, will impact our sales and profitability. Profitability might differ due to various reasons such as the costs associated with developing, producing, launching and marketing new and existing products.

Going forward, we intend to introduce an upscale product line (the "**KA Product Line**") with enhanced quality and packaging to target the consumer group of international and major domestic hypermarket chains in China, strengthen the promotion of our oral care products, enhance the range of our baby care products and increase marketing of such products and further enrich our product offerings in diaper product series.

Changes to our brand and product mix can be due to various reasons such as a change in our promotional efforts for certain products, the launching of new brands or product series, or a change in consumer demand for certain brands or products. We will continue to optimise our brand and product mix, through monitoring market trends, competition, consumer preferences and our sales.

Competition

Our results of operations and financial condition are affected by the competitive landscape of the children care products in PRC. The children care product industry in China is highly competitive. We face competition from both international and domestic brands in the personal care products market in different geographical areas in China with an increasing number of local and international players. Industry players compete with one another based on, among other things, brand recognition, business scale, sales network, product range and quality, marketing and price. When competition in the market further intensifies, our pricing and profitability may be affected in order to maintain the competitiveness of our products.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currencies

These financial statements are presented in RMB which is our Company's functional and presentation currency. Each entity in our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in our Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of our Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the statements of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for each of the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where our Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Property, Plant and Equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, our Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Impairment of financial assets

Our Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, our Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If our Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, our Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

RESULTS OF OPERATIONS

The following table sets out our combined income statements for the three years ended 31 December 2008, 2009 and 2010, which are derived from the Accountants' Report as set out in Appendix I to this prospectus:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
REVENUE	473,966	624,396	837,991
Cost of sales	(291,074)	(385,412)	(515,052)
Gross profit	182,892	238,984	322,939
Other income and gains	775	1,992	992
Selling and distribution costs	(67,295)	(94,811)	(130,786)
Administrative expenses	(13,911)	(14,714)	(23,586)
Other operating expenses	(635)	(43)	(21)
Finance costs	(2,410)	(5,142)	(1,638)
PROFIT BEFORE TAX	99,416	126,266	167,900
Income tax expense	(27,192)	(34,467)	(23,431)
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF OUR COMPANY FOR THE YEAR	72,224	91,799	144,469

SELECTED INCOME STATEMENTS ITEMS

Revenue

Our revenue consists of sales derived from our products under our brands, which represents the net invoiced value of goods sold, less allowances for returns and trade discounts. We derive substantially all of our revenue from sales of children care products. The table below sets forth our revenue by brand for the periods indicated:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of sales	RMB'000	% of sales	RMB'000	% of sales
青蛙王子 **(Frog Prince)**						
Skin care products	202,419	42.7%	255,621	40.9%	359,011	42.8%
Body and hair care products	44,042	9.3%	72,921	11.7%	100,747	12.0%
Oral care products	39,012	8.2%	39,860	6.4%	55,694	6.6%
Diaper products	—	—	8,769	1.4%	20,199	2.4%
Adult oral care products	34,811	7.4%	55,409	8.9%	43,238	5.2%
	320,284	67.6%	432,580	69.3%	578,889	69.0%
雙飛劍 **(Shuangfeijian)**	67,132	14.2%	97,100	15.6%	165,350	19.7%
深呼吸 **(Shenhuxi)**	17,173	3.6%	12,324	2.0%	14,689	1.8%
Others	69,377	14.6%	82,392	13.1%	79,063	9.5%
Total	473,966	100.0%	624,396	100.0%	837,991	100.0%

Our revenue increased from RMB474.0 million for the year ended 31 December 2008 to RMB624.4 million for the year ended 31 December 2009 and to RMB838.0 million for the year ended 31 December 2010, representing a CAGR of 33.0%. The increase in revenue was mainly driven by the increase in sales of our products under our 青蛙王子 (Frog Prince) brand, and to a lesser extent, our 雙飛劍 (Shuangfeijian) branded products. Sales of products under our 青蛙王子 (Frog Prince) brand accounted for 67.6%, 69.3% and 69.0% for the three years ended 31 December 2008, 2009 and 2010, respectively.

The sales of products under our 青蛙王子 (Frog Prince) brand increased from RMB320.3 million for the year ended 31 December 2008, to RMB432.6 million for the year ended 31 December 2009 and further to RMB578.9 million for the year ended 31 December 2010, representing a CAGR of 34.4%, primarily due to (i) the wider recognition of our 青蛙王子 (Frog Prince) brand in China as a result of our ongoing effort to market and promote our 青蛙王子 (Frog Prince) brand, including the broadcast of our 青蛙王子 (Frog Prince) animation series and television commercials; (ii) the increase in the number of our distributors from 107 as at 31 December 2008 to 160 as at 31 December 2010; (iii) the improvement in sales performance of our distributors as a result of the growth of the overall children care product market; and (iv) the introduction of our diaper product series in 2009 and other products during the periods.

The increase in sales from 雙飛劍 (Shuangfeijian) products was mainly due to the introduction of new insecticide products in the year ended 31 December 2009 and 2010. We introduced 12 and five new insecticide products in the year ended 31 December 2009 and 2010, respectively.

Other sales mainly include the sales of our OEM products and adult oral care products and skin care products under other brands of our Group. The increase in sales of others for the year ended 31 December 2009 was mainly due to the increase in sale of our OEM products. The decrease in sales of others for the year ended 31 December 2010 was mainly due to the cessation of our adult oral care products and skin care products under other brands of our Group in 2010.

Cost of sales

Our cost of sales includes cost of raw materials and packaging materials, outsourcing expenses, direct labour cost and manufacturing overhead cost.

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
青蛙王子 **(Frog Prince)**						
Skin care products	119,924	41.2%	151,743	39.4%	206,529	40.1%
Body and hair care products	22,152	7.6%	37,206	9.7%	53,632	10.4%
Oral care products	16,104	5.5%	17,522	4.5%	25,398	4.9%
Diaper products	—	—	5,517	1.4%	12,117	2.4%
Adult oral care products	21,066	7.3%	32,437	8.4%	26,269	5.1%
	179,246	61.6%	244,425	63.4%	323,945	62.9%
雙飛劍 **(Shuangfeijian)**	47,204	16.2%	69,961	18.2%	119,025	23.1%
深呼吸 **(Shenhuxi)**	11,697	4.0%	8,877	2.3%	10,373	2.0%
Others	52,927	18.2%	62,149	16.1%	61,709	12.0%
Total	291,074	100.0%	385,412	100.0%	515,052	100.0%

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of cost of sales	RMB'000	% of cost of sales	RMB'000	% of cost of sales
Raw materials	86,347	29.7%	122,338	31.7%	171,624	33.3%
Packaging materials	107,274	36.9%	149,464	38.8%	194,750	37.8%
Outsourcing	80,511	27.7%	92,635	24.0%	116,022	22.5%
Direct labour	4,442	1.5%	8,315	2.2%	10,527	2.0%
Manufacturing overheads	12,500	4.2%	12,660	3.3%	22,129	4.4%
	291,074	100.0%	385,412	100.0%	515,052	100.0%

Our cost of sales increased from RMB291.1 million for the year ended 31 December 2008, to RMB385.4 million for the year ended 31 December 2009 and RMB515.1 million for the year ended 31 December 2010, primarily due to and in line with the increase in sales during those periods. Cost of raw materials and packaging materials accounted for 66.6%, 70.5% and 71.1% of our total cost of sales for the three years ended 31 December 2008, 2009 and 2010, respectively. The increase in the proportion of cost of raw materials and packaging materials to our cost of sales was mainly due to the increase in sales of products that were manufactured by ourselves.

Our outsourcing expenses mainly consisted of our expenses for outsourcing the production of our oral care products, insecticide products, air freshener products, diaper products, part of our OEM products, and occasionally our skin care products, to our selected third-party manufacturers. The increase in outsourcing expenses of RMB12.1 million from RMB80.5 million for the year ended 31 December 2008 to RMB92.6 million for the year ended 31 December 2009 was mainly due to the increase in the sales of our adult oral care products and insecticide products. The increase in outsourcing expenses of RMB23.4 million from RMB92.6 million for the year ended 31 December 2009 to RMB116.0 million for the year ended 31 December 2010 as we increased outsourcing the production of our skin care product in view of the significant growth of its sales and the then level of utilisation of our production facilities in the year ended 31 December 2010.

The increase in direct labour cost was in line with the increase in our production scale. Manufacturing overhead cost increased in the year ended 31 December 2010 primarily due to the outsourcing charge of RMB8.7 million paid to Fujian Shuangfei subsequent to the Reorganisation. Pursuant to the Reorganisation, we outsourced the production of sunscreen, air freshener and insecticide products to Fujian Shuangfei from 1 January 2010.

Our cost of sales as a percentage of sales remained relatively stable at 61.4%, 61.7% and 61.5% for the three years ended 31 December 2008, 2009 and 2010, respectively.

Gross profit and gross profit margin

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	Gross profit %	RMB'000	Gross profit %	RMB'000	Gross profit %
青蛙王子 **(Frog Prince)**						
Skin care products	82,495	40.8%	103,878	40.6%	152,482	42.5%
Body and hair care products	21,890	49.7%	35,715	49.0%	47,115	46.8%
Oral care products	22,908	58.7%	22,338	56.0%	30,296	54.4%
Diaper products	—	—	3,252	37.1%	8,082	40.0%
Adult oral care products	13,745	39.5%	22,972	41.5%	16,969	39.2%
	141,038	44.0%	188,155	43.5%	254,944	44.0%
雙飛劍 **(Shuangfeijian)**	19,928	29.7%	27,139	27.9%	46,325	28.0%
深呼吸 **(Shenhuxi)**	5,476	31.9%	3,447	28.0%	4,316	29.4%
Others	16,450	23.7%	20,243	24.6%	17,354	21.9%
Total	182,892	38.6%	238,984	38.3%	322,939	38.5%

Our gross profit increased from RMB182.9 million for the year ended 31 December 2008 to RMB239.0 million for the year ended 31 December 2009 and to RMB322.9 million for the year ended 31 December 2010, primarily due to the increase in sales. The gross profit margin of the products under our 青蛙王子 (Frog Prince) brand remained relatively stable during the three years ended 31 December 2008, 2009 and 2010. The gross profit margin of our skin care products remained stable at 40.8% and 40.6% for the two years ended 31 December 2008 and 2009 and increased to 42.5% for the year ended 31 December 2010, respectively. During the Track Record Period, sales of moisturising lotion products accounted for a significant and growing portion of the sales of our skin care products. Due to the decrease in the cost of the major raw materials used in the production of our moisturising lotion products for the year ended 31 December 2010, our moisturising lotion products recorded growth in gross profit margin which in turn led to the increase in the gross profit margin of our skin care products. The increase in gross profit margin from skin care products was offset by the decrease in gross profit margin from our body and hair care products, oral care products and adult oral care products in the year ended 31 December 2010. The decrease in gross profit margin of these products was mainly as a result of a change in product mix which we sold slightly more lower gross profit margin products in the year ended 31 December 2010. The gross profit margins for our 青蛙王子 (Frog Prince) products were higher during the Track Record Period mainly due to the product nature and the brand image we position our products in the market.

The slight decrease in gross profit margin of 雙飛劍 (Shuangfeijian) from 29.7% for the year ended 31 December 2008 to 27.9% for the year ended 31 December 2009 was mainly due to the increase in the cost of raw materials for our insecticide products.

The change in gross profit margin of our other products from 23.7% for the year ended 31 December 2008 to 24.6% for the year ended 31 December 2009 and 21.9% for the year ended 31 December 2010 was primarily due to the change in product mix of our other products.

As a result of the above changes in gross profit margin of our brands and products, our gross profit margin remained relatively stable for the three years ended 31 December 2008, 2009 and 2010.

Other income and gains

Other income and gains mainly consisted of bank interest income and government subsidies in connection with our export to the United States. The increase in other income and gains from RMB0.8 million for the year ended 31 December 2008 to RMB2.0 million for the year ended 31 December 2009 was mainly due to the increase in government subsidies of RMB1 million.

Selling and distribution costs

Selling and distribution costs primarily represented advertising expenses, marketing and promotion expenses, transportation costs, staff costs and other selling and distribution expenses.

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Advertising expenses	35,225	7.4%	29,455	4.7%	43,492	5.2%
Marketing and promotion expenses	18,208	3.8%	37,171	6.0%	38,857	4.6%
Transportation costs	2,407	0.5%	12,400	2.0%	27,098	3.2%
Staff costs	8,170	1.7%	9,938	1.6%	14,167	1.7%
Travelling expenses	1,711	0.4%	2,677	0.4%	3,179	0.4%
Others	1,574	0.4%	3,170	0.5%	3,993	0.5%
	67,295	14.2%	94,811	15.2%	130,786	15.6%

Our advertising expenses mainly consisted of our expenses on (i) television commercials for our 青蛙王子 (Frog Prince) and 雙飛劍 (Shuangfeijian) brand in major domestic television channels including CCTV Children Channel; and (ii) the production and broadcast of our 青蛙王子 (Frog Prince) animation series.

Our marketing and promotion expenses mainly consisted of our expenses on organising our trade fairs and promotion meetings with our distributors, production of our promotional gifts and free samples and other promotional expenses such as participating in industry exhibitions. The increase in marketing and promotion expenses for the year ended 31 December 2009 as compared to the year ended 31 December 2008 was primarily due to the increase in our expenditure on promotional gifts and free samples to promote our brands. Marketing and promotion expenses increased in the year ended 31 December 2010 as compared to the year ended 31 December 2009 as we participated more industry exhibitions.

Our transportation costs increased from RMB2.4 million for the year ended 31 December 2008 to RMB12.4 million for the year ended 31 December 2009 and RMB27.1 million for the year ended 31 December 2010 as a result of the change of our delivery policy during the periods. In the year ended 31 December 2008, all the delivery costs were borne by our distributors under the distribution agreements. In line with our strategy to expand our network of distributors, we revised our delivery policy and shared half of the delivery costs with our distributors in the year ended 31 December 2009, and further in the year ended 31 December 2010, all the delivery costs were borne by us. Despite an increase in our delivery costs, the revised delivery policy was proven to be a success as we not only expanded our business scale and revenue but also managed to gradually improve our profitability during the Track Record Period. Our net profit margins were 15.2%, 14.7% and 17.2% for the three years ended 31 December 2008, 2009 and 2010, respectively.

As a result, our selling and distribution costs increased from RMB67.3 million for the year ended 31 December 2008, to RMB94.8 million for the year ended 31 December 2009 and to RMB130.8 million for the year ended 31 December 2010 and accounted for 14.2%, 15.2% and 15.6% of our revenue, respectively.

Administrative expenses

Administrative expenses primarily consisted of salaries and wages to our administrative staff, depreciation, other taxes and surcharges and other administrative expenses.

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Salaries and wages	2,911	0.6%	2,966	0.5%	4,611	0.6%
Depreciation	734	0.2%	723	0.1%	1,307	0.2%
Other taxes and surcharges	4,213	0.9%	5,217	0.9%	1,936	0.2%
Travelling and entertainment	862	0.2%	713	0.1%	1,546	0.2%
Amortisation charge	115	0.0%	272	0.0%	1,154	0.1%
Others	5,076	1.0%	4,823	0.8%	13,032	1.5%
	13,911	2.9%	14,714	2.4%	23,586	2.8%

Our salaries and wages increased from RMB2.9 million for the year ended 31 December 2008 to RMB3.0 million for the year ended 31 December 2009 and to RMB4.6 million for the year ended 31 December 2010 primarily due to the increase in the number of headcount of our administrative staff during this period to cope with our expansion.

The increase in depreciation and amortisation charge for the year ended 31 December 2010 was due to the completion of construction of our new staff dormitory building in early 2010.

Other administrative expenses primarily included insurance, vehicle expenses, repair and maintenance and research and development costs. The increase in other administrative expenses for the year ended 31 December 2010 was mainly attributable to our expenses of RMB3.6 million in relation to the Global Offering.

As a result, our administrative expenses increased from RMB13.9 million for the year ended 31 December 2008, to RMB14.7 million for the year ended 31 December 2009 and to RMB23.6 million for the year ended 31 December 2010. In terms of revenue, our administrative expenses remained stable at 2.9%, 2.4% and 2.8% of our total revenue for the three years ended 31 December 2008, 2009 and 2010, respectively.

Other operating expenses

Other operating expenses mainly represented donation in relation to the Sichuan earthquake and contribution to the establishment of a Hope Primary School (希望小學) in Sichuan in the amounts of RMB23,000 and RMB500,000, respectively in the year ended 31 December 2008.

Finance costs

Finance costs primarily included interest on our bank borrowings. The increase in finance costs from RMB2.4 million for the year ended 31 December 2008 to RMB5.1 million for the year ended 31 December 2009 was mainly due to the increase in our bank and other borrowings for the construction of our new production facilities. The decrease in finance costs from RMB5.1 million for the year ended 31 December 2009 to RMB1.6 million for the year ended 31 December 2010 was mainly due to the decrease in our bank borrowings. Pursuant to the Reorganisation, a portion of our bank borrowings were retained by Fujian Shuangfei as they were unrelated to the Transferred Operations on 1 January 2010 and leading to a decrease in our average bank borrowings in the year ended 31 December 2010.

Income tax expense

Our Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate.

In relation to our Group, our Company was incorporated in the Cayman Islands as an exempted company and, accordingly, is exempt from Cayman Islands income tax. Prince Frog Investment was incorporated in the British Virgin Islands as an exempted company and, accordingly, is exempt from British Virgin Islands income tax.

No provision for Hong Kong profits tax has been made as our Group had no assessable profits derived from or earned in Hong Kong during the Track Record Period.

Taxes on profits assessable in China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, PRC Corporate Income Tax Law was approved and became effective on 1 January 2008. The new PRC Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Fujian Shuangfei, a domestic-invested enterprise operating in China, was immediately transited to the applicable tax rate of 25%.

Pursuant to the Notice on the Implementation of Enterprises Income Tax Transition Preferential Policy (國務院關於實施企業所得稅過渡優惠政策的通知) issued by The State Council of PRC on 26 December 2007, effective from 1 January 2008, Prince Frog (China) was exempted from PRC corporate income tax from 1 January 2008 to 31 December 2009 and is entitled to 50% reduction of the prevailing tax rate from 1 January 2010 to 31 December 2012. With effective from 1 January 2013, the applicable tax rate is 25%. Prince Frog (China) did not generate taxable profits prior to 31 December 2007.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended 31 December 2010 Compared to Year Ended 31 December 2009

Revenue

Our revenue increased by RMB213.6 million, or 34.2%, from RMB624.4 million for the year ended 31 December 2009 to RMB838.0 million for the year ended 31 December 2010 primarily attributable to (i) the strong brand recognition of our 青蛙王子 (Frog Prince) brand and the sales of our 青蛙王子 (Frog Prince) branded products increased by 33.8% from RMB432.6 million for the year ended 31 December 2009 to RMB578.9 million for the year ended 31 December 2010; and (ii) the increase in sales from our 雙飛劍 (Shuangfeijian) branded products as we continued to introduce new products under this brand.

Cost of sales

Our cost of sales increased by RMB129.7 million, or approximately 33.6%, from RMB385.4 million for the year ended 31 December 2009 to RMB515.1 million for the year ended 31 December 2010 primarily as a result of the increase in sales.

Gross profit and gross profit margin

Our gross profit increased by RMB83.9 million, or approximately 35.1%, from RMB239.0 million for the year ended 31 December 2009 to RMB322.9 million for the year ended 31 December 2010 primarily due to the increase in sales.

Our gross profit margin remained stable at 38.5% for the year ended 31 December 2010 as compared to 38.3% for the year ended 31 December 2009.

Other income and gains

Other income and gains decreased by RMB1.0 million, or approximately 50.0%, from RMB2.0 million for the year ended 31 December 2009 to RMB1.0 million for the year ended 31 December 2010 primarily due to the decrease in government subsidies, which was at the sole discretion of government.

Selling and distribution costs

Our selling and distribution costs increased by RMB36.0 million, or approximately 38.0%, from RMB94.8 million for the year ended 31 December 2009 to RMB130.8 million for the year ended 31 December 2010, primarily as a result of (i) the increase in advertising expenses as we continued to invest in advertising to promote our brand in China; (ii) the increase in transportation costs as a result of our change in delivery policy of which all transportation costs were borne by us in the year ended 31 December 2010; and (iii) the increase in staff costs due to our expanded sales team to cope with the increase in sales.

Administrative expenses

Our administrative expenses increased by RMB8.9 million, or approximately 60.5%, from RMB14.7 million for the year ended 31 December 2009 to RMB23.6 million for the year ended

31 December 2010, primarily due to (i) the increase in salaries and wages as a result of the increase in headcount of our administrative staff to cope with our expansion; (ii) the increase in depreciation and amortisation charge as we completed the construction of our new staff dormitory building in early 2010; and (iii) our expenses in relation to the Global Offering of RMB3.6 million.

Finance costs

Our finance costs decreased by RMB3.5 million, or approximately 68.6%, from RMB5.1 million for the year ended 31 December 2009 to RMB1.6 million for the year ended 31 December 2010, primarily due to the decrease in our bank and other borrowings balance. Pursuant to the Reorganisation, a portion of our bank borrowings were retained by Fujian Shuangfei as they were unrelated to the Transferred Operations on 1 January 2010 which resulted in to a decrease in our average bank borrowings balance in the year ended 31 December 2010.

Profit before tax

Our profit before tax increased by RMB41.6 million, or approximately 32.9%, from RMB126.3 million for the year ended 31 December 2009 to RMB167.9 million for the year ended 31 December 2010, as a result of the foregoing.

Income tax expense

Our income tax expense decreased by RMB11.1 million, or approximately 32.2%, from RMB34.5 million for the year ended 31 December 2009 to RMB23.4 million for the year ended 31 December 2010, primarily as a result of the decrease in tax rate applicable to us. Our effective tax rate decreased from 27.3% for the year ended 31 December 2009 to 14.0% for the year ended 31 December 2010 as we received a preferential tax treatment from our operating subsidiary in China.

Profit for the year

Our profit for the year increased from RMB91.8 million for the year ended 31 December 2009 to RMB144.5 million for the year ended 31 December 2010, primarily as a result of the factors discussed above. Our net profit margin increased from 14.7% for the year ended 31 December 2009 to 17.2% for the year ended 31 December 2010 primarily due to the preferential tax treatment received by our operating subsidiary in China.

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

Revenue

Our revenue increased by RMB150.4 million, or approximately 31.7%, from RMB474.0 million for the year ended 31 December 2008 to RMB624.4 million for the year ended 31 December 2009 primarily attributable to (i) the increase in sales of our 青蛙王子 (Frog Prince) branded products which increased by 35.1%, from RMB320.3 million for the year ended 31 December 2008 to RMB432.6 million for the year ended 31 December 2009 primarily attributable to the expansion of our network and the increase in the number of our distributors from 107 as at 31 December 2008 to 146 as at 31 December 2009; (ii) the increase in sales from our 雙飛劍 (Shuangfeijian) branded products as we introduced new products under this brand; and (iii) partially due to the increase in our export sales.

Cost of sales

Our cost of sales increased by RMB94.3 million, or approximately 32.4%, from RMB291.1 million for the year ended 31 December 2008 to RMB385.4 million for the year ended 31 December 2009 primarily as a result of the increase in our sales.

Gross profit and gross profit margin

Our gross profit increased by RMB56.1 million, or approximately 30.7%, from RMB182.9 million for the year ended 31 December 31 2008 to RMB239.0 million for the year ended 31 December 2009 primarily due to the increase in our sales.

Our gross profit margin remained stable at 38.3% for the year ended 31 December 2009 as compared to 38.6% for the year ended 31 December 2008.

Other income and gains

Our other income and gains increased by RMB1.2 million, or approximately 150%, from RMB0.8 million for the year ended 31 December 2008 to RMB2.0 million for the year ended 31 December 2009, primarily due to the increase in government subsidies in connection with our export sales to the United States. There are no unfulfilled conditions or contingencies relating to these subsidies.

Selling and distribution costs

Our selling and distribution costs increased by RMB27.5 million, or approximately 40.9%, from RMB67.3 million for the year ended 31 December 2008 to RMB94.8 million for the year ended 31 December 2009, primarily as a result of the increase in our marketing and promotion expenses on promotional gifts and free samples to promote our brands and products, and partially due to the increase in transportation costs due to the change of our product delivery policy, which we shared half of the delivery costs with our distributors in 2009.

Administrative expenses

Our administrative expenses slightly increased by RMB0.8 million, or approximately 5.8%, from RMB13.9 million for the year ended 31 December 2008 to RMB14.7 million for the year ended 31 December 2009, mainly as a result of our expanded operation in the year ended 31 December 2009.

Other operating expenses

Other operating expenses decreased by RMB592,000, or approximately 93.2%, from RMB635,000 for the year ended 31 December 2008 to RMB43,000 for the year ended 31 December 2009, as we have made donations of RMB523,000 in the year ended 31 December 2008.

Finance costs

Finance costs increased by RMB2.7 million, or approximately 112.5%, from RMB2.4 million for the year ended 31 December 2008 to RMB5.1 million for the year ended 31 December

2009, primarily due to the increase in our bank and other borrowings for the construction of our new production facilities.

Profit before tax

Profit before tax increased by RMB26.9 million, or approximately 27.1%, from RMB99.4 million for the year ended 31 December 2008 to RMB126.3 million for the year ended 31 December 2009, as a result of the foregoing.

Income tax expense

Income tax expense increased by RMB7.3 million, or approximately 26.8%, from RMB27.2 million for the year ended 31 December 2008 to RMB34.5 million for the year ended 31 December 2009, primarily as a result of the increase in our profit before tax. Our effective tax rate remained relatively stable at 27.3% for the year ended 31 December 2009, as compared to 27.4% for the year ended 31 December 2008.

Profit for the year

Our profit for the year increased from RMB72.2 million for the year ended 31 December 2008 to RMB91.8 million for the year ended 31 December 2009, primarily as a result of the factors discussed above. Our net profit margin decreased slightly from 15.2% for the year ended 31 December 2008 to 14.7% for the year ended 31 December 2009 primarily due to the increase in selling and distribution costs as we changed our delivery policy.

NET CURRENT ASSETS

Details of our current assets and liabilities at each of the balance sheet dates during the Track Record Period are as follows:

	As at 31 December			As at 30 April
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current Assets				
Inventories	30,384	34,323	34,737	19,447
Trade and bills receivables	35,609	74,559	59,149	210,079
Amounts due from related parties	10,731	11,091	26,144	13,954
Prepayments, deposits and other receivables	11,992	2,337	3,731	1,276
Pledged deposits	2,997	3,662	2,350	4,698
Cash and cash equivalents	27,786	114,442	72,299	72,629
Total current assets	119,499	240,414	198,410	322,083
Current Liabilities				
Trade and bills payables	9,390	35,270	33,894	92,802
Other payables and accruals	6,978	14,028	17,211	13,051
Interest-bearing bank and other borrowings	45,700	85,728	—	50,000
Amounts due to related parties	1,218	2,025	89,565	89,038
Tax payable	8,191	12,210	7,349	2,893
Total current liabilities	71,477	149,261	148,019	247,784
Net Current Assets	**48,022**	**91,153**	**50,391**	**74,299**

As at 30 April 2011, being the latest practicable date for ascertaining our net current assets/ liabilities position before the Global Offering, we had net current assets of RMB74.3 million.

Inventories

The table below sets forth a summary of our balance of inventories as of the balance sheet dates:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	9,607	8,030	7,645
Work in progress	1,117	1,043	830
Finished goods	19,660	25,250	26,262
Total	30,384	34,323	34,737

Our inventories increased by RMB3.9 million or approximately 12.8%, from RMB30.4 million as of 31 December 2008 to RMB34.3 million as of 31 December 2009, primarily due to the growth of our sales which led to an increase in our finished goods to cope with the expected increase in sales in the coming year. Our inventories balance remained stable at RMB34.7 million as at 31 December 2010 as compared to RMB34.3 million as at 31 December 2009 despite our sales increased in the year ended 31 December 2010. In view of the earlier Chinese New Year Holiday in early February 2011, we scheduled our production plan and delivered part of the finished goods to our distributors prior to year end to cope with the expected increase in demand in early January 2011.

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

	Year ended 31 December		
	2008	2009	2010
Average inventory turnover days(Note)	30	31	24

Note:
Calculated as the average of the beginning and ending inventory balances for the period, divided by the cost of sales for the period, multiplied by 365 days for a year in respect of periods indicated.

Our inventory turnover days remained relatively stable at 30 days and 31 days for the two years ended 31 December 2008 and 2009, respectively and decreased to 24 days for the year ended 31 December 2010, primarily due to earlier production and delivery in view of the Chinese New Year Holiday in early February 2011.

During the Track Record Period, we have not made any provision on our inventory.

As of 30 April 2011, approximately RMB31,008,000, or 89.3%, of our inventories as of 31 December 2010 has been utilised or sold.

Trade and Bills Receivables

Our trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days to 60 days.

Our Group seeks to maintain strict control over our outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that our Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

The following table sets forth our trade and bills receivables at the indicated balance sheet dates:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade and bills receivables	35,609	74,559	59,149

Our trade and bills receivables increased by RMB39.0 million, or 109.4%, from RMB35.6 million as of 31 December 2008 to RMB74.6 million as of 31 December 2009, primarily due to (i) the increase in sales in the year ended 31 December 2009 as compared to the year ended 31 December 2008; and (ii) a slight delay in the repayment from some of our distributors as we were expanding our distribution network in the year ended 31 December 2009 and therefore choose to allow such distributors to slightly delay the settlement of their balances with us in order to allow them to have more funding to expand their sub-distribution network. Our trade and bills receivables balance decreased by RMB15.5 million, or 20.7%, from RMB74.6 million as at

31 December 2009 to RMB59.1 million as at 31 December 2010 as our customers settled their balances with us more quickly.

As at 31 December 2008, 2009 and 2010, an aged analysis of the trade and bills receivables, based on the invoice date, is as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 30 days	31,249	45,411	48,836
31 to 60 days	3,797	28,433	10,052
61 to 90 days	422	571	61
91 to 180 days	—	3	200
181 to 365 days	141	—	—
Over 365 days	—	141	—
	35,609	74,559	59,149

At 31 December 2008, 2009 and 2010, the analysis of trade and bills receivables that were past due but not impaired is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2008	35,609	31,404	3,643	421	—	141
31 December 2009	74,559	45,410	28,433	571	4	141
31 December 2010	59,149	49,036	10,052	61	—	—

Our Group's neither past due nor impaired trade and bills receivables mainly represent sales made to recognised and creditworthy customers for whom there was no recent history of default. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Our Group does not hold any collateral or other credit enhancements over these balances. We had written off bad debt of RMB1.6 million and RMB0.1 million in the year ended 31 December 2008 and 2010 and recorded a recovery of trade and bills receivables previously written off of RMB89,000 in the year ended 31 December 2009.

The following table sets forth the average trade and bills receivables turnover days for the periods indicated:

	Year ended 31 December		
	2008	2009	2010
Average trade and bills receivables turnover days(Note)	31	32	29

Note:
Calculated as the average of the beginning and ending trade and bills receivables balances for the period, divided by revenue for the period, multiplied by 365 days for a year in respect of periods indicated.

The average trade and bills receivables turnover days remained stable at 31 days for the year ended 31 December 2008, 32 days for the year ended 31 December 2009 and 29 days for the year ended 31 December 2010.

As at 30 April 2011, all of our trade and bills receivables as of 31 December 2010 of RMB59,149,000 had been settled.

Prepayments, deposits and other receivables

The table below sets forth a summary of our prepayments, deposits and other receivables at the balance sheet dates indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Prepayments	1,192	2,337	3,325
Prepayments for purchase of leasehold lands	21,041	—	—
Prepayments for purchase of items of property, plant and equipment	—	—	8,287
Deposits	100	100	506
Other receivables	10,800	—	—
	33,133	2,437	12,118
Less: non-current portion	(21,141)	(100)	(8,387)
	11,992	2,337	3,731

Prepayments, deposits and other receivables primarily consisted of the prepayment to our suppliers, rental prepayment and the prepayment for the purchase of a piece of land as at 31 December 2008 for the construction of our new production facilities in Fujian. Other receivables primarily consisted of two short-term advances granted to our suppliers, who were Independent Third Parties, in the year ended 31 December 2008 for their need of working capital. Those advances were non-interest bearing and were fully settled in 2009. The deposits of RMB8.3 million as of 31 December 2010 related to the deposit for the purchase of items of property, plant and machinery for our new production facilities.

As at 31 December 2008, 2009 and 2010, the net balance of prepayments, deposits and other receivables was neither past due nor impaired. Financial assets included in the above balances relate to receivables for which there was no recent history of default.

Trade and bills payables

Our trade and bills payables are generated from purchases of raw materials and packaging materials. Our suppliers typically require us to make the payments within 30 days after the receiving of delivered goods and invoices. Bills payables are non-interest bearing and are normally settled on one to six months terms.

The following table sets forth our trade and bills payables at the balance sheet dates indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade and bills payables	9,390	35,270	33,894

Our trade and bills payables increased by 275.6%, from RMB9.4 million as of 31 December 2008 to RMB35.3 million as of 31 December 2009. In the year ended 31 December 2008, we settled our balances more quickly with our suppliers to support their operation in view of the financial crisis. Our trade and bills payables decreased by approximately 4.0%, from RMB35.3 million as of 31 December 2009 to RMB33.9 million as of 31 December 2010, as we scheduled part of our production and purchases prior to year end to cope with the expected increase in demand before the Chinese New Year Holiday in early February 2011.

The following table sets forth an aging analysis of our trade and bills payables, at the balance sheet dates indicated, based on the invoice date:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 month	5,423	31,510	28,111
1 to 3 months	1,432	1,334	4,575
3 to 6 months	2,479	2,426	1,170
Over 6 months	56	—	38
	9,390	35,270	33,894

The following table sets forth the average trade and bills payables turnover days for the periods indicated:

	Year ended 31 December		
	2008	2009	2010
Average trade and bills payables turnover days(Note)	12	21	25

Note:
Calculated as the average of the beginning and ending trade and bills payables balances for the period, divided by the cost of sales in the period, multiplied by 365 days for a year in respect of periods indicated.

The average trade and bills payables turnover days increased from 12 days in the year ended 31 December 2008 to 21 days in the year ended 31 December 2009 and 25 days in the year ended 31 December 2010. The average trade and bills payables turnover days in the year ended 31 December 2008 were shorter because we settled our trade and bills payables balance with our suppliers more quickly to support their operation in view of the financial crisis.

As at 30 April 2011, approximately RMB32,133,000 or 94.8%, of our trade and bills payables as of 31 December 2010 of RMB33,894,000 had been settled.

Other payables and accruals

The table below sets forth a summary of our other payables and accruals as at the balance sheet dates indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other payables	98	415	40
Other tax payables	2,679	2,812	5,732
Deposits received from customers	—	2,959	1,487
Accruals	4,201	7,842	9,952
	6,978	14,028	17,211

Our other tax payables mainly consisted of value-added tax payables. Deposits received from customers mainly represented the prepayment received from customers for our export sales. Except our sales to Shuangfei (USA), we generally require our export customers to pay us a deposit accounting for 30% of the total contract value before delivery. Accruals primarily consisted of accrued transportation costs and salaries and wages. The increase in accruals was mainly due to the increase in transportation costs as we changed our delivery policy during the Track Record Period.

Amounts due from/to related parties

(i) Amounts due from related parties

The following table set forth a summary of the amounts due from related parties as at the balance sheet dates indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Directors	4,727	7,500	2,573
Related companies	6,004	3,591	23,571
	10,731	11,091	26,144

The amounts due from Directors mainly represented the personal expenses of our Directors paid by us on their behalf. The amounts due from related companies were mainly trade related.

(ii) Amounts due to related parties

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Directors	1,218	2,025	430
Immediate holding company	—	—	89,135
	1,218	2,025	89,565

The amounts due to Directors mainly represented our expenses paid by our Directors on our behalf. The amounts due to intermediate holding company related to the fund received from the pre-IPO investment and was settled upon the completion of the Reorganisation.

All amounts due from/to related parties were unsecured, interest-free and have no fixed terms of repayment. Save for the amounts due from Shuangfei (USA) which are trade related, we have settled all non-trade related parties balances.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table sets forth a summary of net cash flow of our Group for the periods indicated:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash generated from operating activities	65,874	99,292	126,523
Net cash used in investing activities	(25,604)	(22,664)	(62,346)
Net cash generated from/(used in) financing activities	(21,000)	10,028	(106,320)
Net increase/(decrease) in cash and cash equivalents	19,270	86,656	(42,143)
Cash and cash equivalents at beginning of the year	8,516	27,786	114,442
Cash and cash equivalents at end of the year	**27,786**	**114,442**	**72,299**

Cash Flow from Operating Activities

We derive our cash inflow from operations principally from the receipt of payments for the sale of our products. Our cash outflow from operations is principally for purchases of raw materials, packaging materials, production outsourcing, salary payments and advertising expenses.

For the year ended 31 December 2010, we had net cash inflows from operating activities before changes in working capital of RMB171.6 million and a net cash inflow of RMB126.5 million. The difference of RMB45.1 million was primarily attributable to (i) movements in balances with related parties of RMB68.4 million arising from the Reorganisation; and (ii) payment of PRC tax of RMB16.1 million, which were partially offset by (i) increase in other payables and accruals of RMB23.0 million which partially resulted from the Reorganisation; and (ii) decrease in trade and bills receivables of RMB15.4 million as our customers settled their balances with us more quickly.

For the year ended 31 December 2009, we had net cash inflows from operating activities before changes in working capital of RMB134.0 million and a net cash inflow of RMB99.3 million. The difference of RMB34.7 million was primarily attributable to (i) an increase in trade and bills receivables of RMB39.0 million arising from the increase in our sales in the year ended 31 December 2009 and a slight delay in the repayment from our distributors as we were expanding our sales network; (ii) an increase in inventories of RMB3.9 million primarily due to the growth of our sales which led to an increase in our finished goods to cope with the expected increase in sales in the coming year; (iii) payment of PRC tax of RMB30.4 million; and (iv) payment of interest expenses of RMB5.1 million, and partially offset by (i) increase in trade and bills payables of RMB25.9 million as we had settled our balances more quickly with our suppliers to support their operation in view of the financial crisis in the year ended 31 December 2008; (ii) decrease in prepayments, deposits and other receivables of RMB10.1 million as we had granted two short-term advances to our suppliers in the total amount of RMB10.8 million in 2008 for their need of working capital which were settled in the year ended 31 December 2009; and (iii) increase in other payables and accruals of RMB7.1 million primarily due to a deposit received from our export customers.

For the year ended 31 December 2008, we had net cash inflow from operating activities before changes in working capital of RMB104.9 million and a net cash inflow of RMB65.9 million. The difference of RMB39.0 million was primarily attributable to (i) an increase in inventories of RMB13.3 million as we increased our inventories level to cope with the expected increase in sales in the coming year; (ii) movement in balances with related parties of RMB10.8 million; and (iii) payment of PRC tax of RMB27.7 million, and partially offset by a decrease in prepayments, deposits and other receivables of RMB10.7 million which was primarily due to the reclassification of prepayments for purchase of leasehold land of RMB21.0 million to non-current portion as at 31 December 2008; and a decrease in trade and bills receivables of RMB6.0 million due to earlier repayment from our distributors.

Cash Flow from Investing Activities

We derive our cash outflow from investing activities principally from purchases of items of property, plant and equipment and land use right.

For the year ended 31 December 2010, we had cash outflow from investing activities of RMB62.3 million which was primarily due to the purchases of and prepayment for items of property, plant and equipment in relation to our new production facilities.

For the year ended 31 December 2009, we had cash outflow from investing activities of RMB22.7 million which was primarily due to the purchases of items of property, plant and equipment in relation to our new production facilities.

For the year ended 31 December 2008, we had cash outflow from investing activities of RMB25.6 million which was primarily due to the purchases of items of property, plant and equipment of RMB12.9 million and land use right of RMB12.0 million primarily in relation to the construction of our new production facilities.

Cash Flow from Financing Activities

We derive our cash flows from financing activities principally from changes in bank borrowings and payment of dividend.

For the year ended 31 December 2010, we had cash outflow from financing activities of RMB106.3 million, primarily resulting from the cash distributed to equity holders under the Reorganisation of RMB108.4 million and repayment of bank loans of RMB56.7 million, and partially offset by new bank loans of RMB58.8 million.

For the year ended 31 December 2009, we had cash inflow from financing activities of RMB10.0 million, primarily from the new bank loans of RMB105.7 million we drew to fund the construction of our new production facilities and offset by repayment of bank loans of RMB45.7 million and payment of dividend of RMB50.0 million.

For the year ended 31 December 2008, we had cash outflow from financing activities of RMB21.0 million, primarily due to repayment of bank loans of RMB21.7 million and payment of dividend of RMB45.0 million and partially offset by new bank loans of RMB45.7 million.

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditures of RMB16.3 million, RMB42.8 million and RMB51.8 million, respectively.

The following table sets forth our capital expenditures for the periods indicated:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Property and equipment	741	4.5%	1,368	3.2%	1,544	3.0%
Prepaid land lease payments	—	—	21,695	50.7%	—	—
Construction in progress	11,462	70.3%	18,897	44.1%	48,292	93.2%
Trademarks	3,428	21.0%	—	—	—	—
Others (motor vehicles, furniture, fixtures and office equipment)	685	4.2%	847	2.0%	1,971	3.8%
	16,316	100.0%	42,807	100.0%	51,807	100.0%

Our capital expenditures of construction in progress for the year ended 31 December 2008 primarily related to the construction of our staff dormitory building, and that for the two years ended 31 December 2009 and 2010 primarily related to the construction of our new production facilities.

Our capital expenditures of land use right for the year ended 31 December 2009 related primarily to the acquisition of the land for our new production facilities.

OPERATING LEASE ARRANGEMENTS

We lease certain of our factory, warehouses and office premises under operating lease arrangements. Leases for properties are negotiated for terms of one to ten years with an option for renewal after that date, at which times all terms will be renegotiated.

As at 31 December 2008, 2009 and 2010, we had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Within one year	709	884	4,118
In the second to fifth years, inclusive	1,838	1,431	4,323
	2,547	2,315	8,441

CAPITAL COMMITMENTS

Our Group had the following capital commitments at the balance sheet dates indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Purchase of buildings	138,633	120,477	77,362
Purchase of items of plant and machinery	—	—	6,790
	138,633	120,477	84,152

We intend to finance the capital commitment as at 31 December 2010 by our cash and cash equivalent balance, cash flows from our operating activities and borrowing from banks.

WORKING CAPITAL

Taking into account the net proceeds available to us from the Global Offering and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

INDEBTEDNESS

The table below sets forth our borrowings as of the dates indicated:

	As at 31 December			As at 30 April
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Bank loans — secured	45,700	67,000	—	50,000
Other loan — unsecured	—	13,728	—	—
Current portion of long term bank loan — secured	—	5,000	—	—
	45,700	85,728	—	50,000
Non-current				
Bank loan — secured	—	20,000	—	—
Bank loan — unsecured	—	—	15,800	15,800
	45,700	105,728	15,800	65,800

As at 30 April 2011, our Group's total indebtedness amounted to RMB65.8 million which consisted of unsecured bank loan of approximately RMB15.8 million and secured bank loans of approximately RMB50.0 million. Save as disclosed in the paragraph headed "Contingent Liabilities" in this section, our Group did not have outstanding mortgage, charges, debentures, loan capital, bank overdrafts debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities acceptance or acceptance credits or any guarantees outstanding as at 30 April 2011. The Directors have confirmed that there has been no material change in the indebtedness during the period from 30 April 2011 to the Latest Practicable Date.

Current Ratio and Gearing Ratio

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

	As at 31 December		
	2008	2009	2010
Financial Ratio			
Current ratio[1]	1.7	1.6	1.3
Quick ratio[2]	1.2	1.4	1.1
Gearing ratio[3]	25.9%	33.5%	5.1%

Notes:

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

(2) Quick ratio is calculated based on the current assets less inventories divided by current liabilities.

(3) Gearing ratio is calculated based on total interest-bearing debt divided by total assets.

Current ratio

Our current ratios were 1.7, 1.6 and 1.3 as of 31 December 2008, 2009 and 2010, respectively. Our current ratio remained relatively stable during the Track Record Period and the slight decrease from 1.6 as at 31 December 2009 to 1.3 as at 31 December 2010 was mainly due to the decrease in cash and cash equivalents balance used for the construction of our new production facilities.

Quick ratio

Our quick ratios were 1.2, 1.4 and 1.1 as of 31 December 2008, 2009 and 2010, respectively. Our quick ratio increased from 1.2 as of 31 December 2008 to 1.4 as of 31 December 2009 which was mainly due to the increased cash and cash equivalents balance as of 31 December 2009 as a result of the increase in bank borrowings in preparation of the construction of our new production facilities. The decrease in quick ratio from 1.4 as of 31 December 2009 to 1.1 as of 31 December 2010 was primarily due to the decrease in trade receivables as our customers settled their balances with us more quickly and, to a lesser extent, due to the decrease in cash and cash equivalents balance as we continue to construct our new production facilities.

Gearing ratio

Our gearing ratios were 25.9%, 33.5% and 5.1% as of 31 December 2008, 2009 and 2010, respectively. Our gearing ratio increased from 25.9% as of 31 December 2008 to 33.5% as of 31 December 2009 as we drew additional bank borrowings to fund the construction of our new production facilities. The decrease in gearing ratio as of 31 December 2010 was mainly due to the decrease in our bank borrowings pursuant to the Reorganisation.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

CONTINGENT LIABILITIES

As at 31 December 2008 and 2009, the banking facilities granted to three Independent Third Parties subject to guarantees given to the banks by Fujian Shuangfei were utilised to the extent of

RMB43.0 million and RMB57.7 million, respectively. We had no contingent liabilities as at 31 December 2010. The guarantees as at 31 December 2008 and 2009 were given by Fujian Shuangfei to the three Independent Third Parties in view of their good personal relationship with Fujian Shuangfei, Mr. Li and Mr. Xie. As confirmed by our Directors, the banking facilities in relation to the guarantees given by Fujian Shuangfei were fully repaid and settled.

RELATED PARTY TRANSACTIONS

At December 2008 and 2009, bank loans with an aggregate amount of RMB38,000,000 and RMB92,000,000, respectively, were guaranteed by 漳州宏源錶業有限公司 (Zhangzhou Hongyuan Watch Co., Ltd.) ("Hongyuan"), Hong Kong Jiulongjiu Limited, 福建宏邦電子有限公司 (Fujian Hongbang Electron Industry Co., Ltd.), Mr. Yan Xiaotong (嚴曉彤), Mr. Lin Zhiqiang (林志強), Ms. Yang Minhui (楊敏慧), being the Independent Third Parties, and the Controlling Shareholders. Yan Xiaotong, Liu Zhiqiang and Yang Minhui are shareholders of Hongyuan.

Bank loans guaranteed by the Controlling Shareholders had been repaid during the years ended 31 December 2009 and 2010. The Directors confirm that the guarantees provided by the Controlling Shareholders have been fully released prior to the Listing.

Save for the above, our Group had the following material transactions with related parties for the periods indicated:

		Year ended 31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Related companies:				
Sales of products	(1)	8,336	8,073	32,646
Rental expenses	(2)	—	—	3,578
Subcontracting fees	(3)	—	—	8,682
Purchases of raw materials	(4)	—	—	159

Notes:

(1) Sales to a related company, Shuangfei (USA), in which Mr. Li and Mr. Xie have beneficial interests, were made on mutually agreed terms.

(2) Prince Frog (China), which is controlled by the Controlling Shareholders, Mr. Xie and Jinlin Investment, and Fujian Shuangfei, which is controlled by Mr. Li and Mr. Xie, entered into buildings, equipment and vehicles lease agreements on 1 January 2010 and a supplementary lease agreement on 26 January 2011. Pursuant to these agreements, Prince Frog (China) leased from Fujian Shuangfei the production premise and office building with a total floor area of 14,097 square metres and certain machinery, furniture, fixtures, office equipment and motor vehicles. The terms of the lease under the agreements are three years with a fixed monthly rental payable of RMB80,000 for the buildings and RMB204,000 for the machinery, furniture, fixtures, office equipment and motor vehicles. Jones Lang LaSalle Sallmanns Limited, independent professional property valuer, has confirmed that the rentals charged under buildings lease agreements reflect fair and reasonable market rentals for such type of properties in China. The Directors confirmed that the rentals charged under equipment and vehicles lease agreements were made on mutually agreed terms.

(3) The Directors confirmed that the subcontracting fees paid to Fujian Shuangfei were made according to the prices similar to those offered in the market.

(4) The Directors confirmed that the purchases from Fujian Shuangfei were made according to the prices and conditions similar to those offered in the market.

The Directors are of the opinion that these related party transactions were conducted on normal commercial terms.

MARKET RISK

Foreign Currency Risk

We have transactional currency exposures. Such exposures arise from sales transactions and denominated in USD.

The following table demonstrates the sensitivity at the end of each of the balance sheet dates to a reasonably possible change in the USD exchange rate, with all other variables held constant, of our Group's profit before tax.

	Increase/ (decrease) in USD rate	Increase/(decrease) in profit before tax 31 December		
		2008	2009	2010
	%	RMB'000	RMB'000	RMB'000
If USD weakens against RMB	5	(324)	56	(1,417)
If USD strengthens against RMB	(5)	324	(56)	1,417

We entered into certain forward currency contracts of USD in 2008 for the purpose of reducing the effect of fluctuation in exchange rate between USD and RMB to our operation. The decision of entering into forward currency contracts was made by our head of finance department.

We had not entered into other forward currency contracts nor had any hedging policy.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates relates primarily to other loan with a floating interest rate.

We regularly review and monitor the floating interest rate borrowings in order to manage its interest rate risks. The interest-bearing loans, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/ charged to the income statement as earned/incurred.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of our Group's net profit (through the impact on floating rate borrowings).

	Increase in interest rate (basis points)	Decrease in profit before tax RMB'000
Year ended 31 December 2010	100	—
Year ended 31 December 2009	100	69
Year ended 31 December 2008	100	—

Credit Risk

We trade only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

The credit risk of our other financial assets, which comprise cash and cash equivalents, amounts due from related companies and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of our exposure to credit risk arising from trade receivables are disclosed in note 18 of the Accountants' Report set out in Appendix I to this prospectus.

Liquidity Risk

We aim at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and cash equivalents and available banking facilities. Our Directors have reviewed our working capital and capital expenditure requirements and determined that the we have no significant liquidity risk.

The maturity profile of our financial liabilities as at the periods indicated, based on the contractual undiscounted payments, was as follows:

	Year ended 31 December 2008			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	9,390	—	9,390
Financial liabilities included in other payables and accruals	—	1,176	—	1,176
Interest-bearing bank and other borrowings	—	47,834	—	47,834
Amounts due to related parties	1,218	—	—	1,218
	1,218	58,400	—	59,618

	Year ended 31 December 2009			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	35,270	—	35,270
Financial liabilities included in other payables and accruals	—	4,720	—	4,720
Interest-bearing bank and other borrowings	—	88,441	21,216	109,657
Amounts due to related parties	2,025	—	—	2,025
	2,025	128,431	21,216	151,672

	Year ended 31 December 2010			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	33,894	—	33,894
Financial liabilities included in other payables and accruals	—	5,064	—	5,064
Interest-bearing bank and other borrowings	—	853	16,920	17,773
Amounts due to related parties	89,565	—	—	89,565
	89,565	39,811	16,920	146,296

PROFIT FORECAST

On the bases and assumption set out in Appendix III to this prospectus, and in the absence of unforeseen circumstances, we forecast that our combined profit attributable to the equity holders of our Company for the six months ending 30 June 2011 is expected to be not less than RMB67.7 million.

The forecast of our combined profit attributable to the equity holders of our Company for the six months ending 30 June 2011 may not necessarily give any indication on, and should not be interpreted as a guidance of, our half year financial results ending 30 June 2011, and will be different from the actual combined net profit attributable to the equity holders of our Company if the factors affecting the results of our operation and financial condition vary materially between the conditions expected in the first half of 2011. Pursuant to Rule 11.18 of the Listing Rules, we have given an undertaking to the Stock Exchange that the interim report for the six months ending 30 June 2011 will be audited. For further details of such factors, please refer to the sections headed "Risk Factors" and "Financial Information — Factors that affect our results of operations" in this prospectus.

DISTRIBUTABLE RESERVES

As of 31 December 2010, the aggregate amount of distributable reserves of the companies now comprising our Group were RMB128.7 million.

DIVIDEND POLICY

We have declared and paid dividends of RMB95.0 million during the Track Record Period but we have not declared or paid any dividends since 1 January 2011 up to the Latest Practicable Date.

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

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

Subject to the factors described above, we currently intend to recommend a distribution to all Shareholders in an amount representing not less than 20% of the distributable net profit attributable to the equity Shareholders of our Company in each of the financial years following the Listing.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group is based on the combined net assets derived from the financial information of our Group as at 31 December 2010, as set out in Appendix I to this prospectus and adjusted as follows:

	Combined net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of our Company	Unaudited pro forma adjusted net tangible assets per Share
	RMB'000	RMB'000	RMB'000	RMB
		(Note 1)		(Note 2)
Based on the Offer Price of HK$2.51 per Share	145,511	467,524	613,035	0.61
Based on the Offer Price of HK$3.76 per Share	145,511	716,863	862,374	0.86

Notes:

(1) The audited combined net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2010 is arrived at after deducting intangible asset of RMB144,000 from the audited combined net assets of our Group attributable to the equity holders of our Company of RMB145,655,000.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.51 and HK$3.76 per Share, after deduction of the underwriting fees and other related expenses payable by our Company. No account has been taken of the Shares which may be allotted and issued upon exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible asset per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 1,000,000,000 Shares are in issue assuming that the Global Offering has been completed on 31 December 2010, which takes no account any Shares which may be allotted and issued upon exercise of the Over-allotment Option.

(4) Our Group's property interests as at 31 May 2011 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, the relevant property valuation report is set out in Appendix IV to this prospectus, "Property Valuation". The revaluation surplus of these properties was not incorporated in our Group's combined financial information for the year ended 31 December 2010 and will not be included in our Group's financial information for the six months ending 30 June 2011. The above adjustments do not take into account the revaluation surplus attributable to our Group arising from the revaluation of our Group's property interests amounting to approximately RMB1.9 million. If the revaluation surplus was recorded in our Group's financial statements, additional annual depreciation and amortisation of approximately RMB87,000 would be charged against profit for the six months ending 30 June 2011.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as of 31 May 2011 and is of the opinion that the value of our property interests is an aggregate amount of approximately RMB104.7 million. The full text of the letter, summary of value and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

The statement below shows the reconciliation of aggregate amounts of certain properties and prepaid land lease payments as reflected on the audited combined financial statements as of 31 December 2010 with the valuation of these properties and prepaid land lease payments as of 31 May 2011 as set out in Appendix IV to this prospectus.

	RMB (million)	RMB (million)
Valuation of properties owned by our Group as of 31 May 2011 as set out in the property valuation report in Appendix IV to this prospectus		104.7
Net book value of the following properties as of 31 December 2010 as set out in Appendix I to this prospectus:		
—Buildings	7.1	
—Prepaid land lease payments	20.9	
Net book value as of 31 December 2010	28.0	
Add: Additions during the period from 1 January 2011 to 31 May 2011	76.3	
Less: Depreciation during the period from 1 January 2011 to 31 May 2011	(1.5)	
Net book value as of 31 May 2011		102.8
Net valuation surplus		1.9

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 31 December 2010 and there is no event since 31 December 2010 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.