The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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30 June 2011

The Board of Directors
Prince Frog International Holdings Limited

CCB International Capital Limited
CIMB Securities (HK) Limited

Dear Sirs,

We set out below our report on the financial information regarding Prince Frog International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2008, 2009 and 2010 (the "Relevant Periods"), prepared on the bases of presentation and preparation set forth in notes 1 and 2.1 of Section II in this report below, for inclusion in the prospectus of the Company dated 30 June 2011 (the "Prospectus") in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 11 January 2011 as an exempted company with limited liability. Pursuant to a group reorganisation as more fully explained in the section "History and Reorganisation" in the Prospectus and in Appendix VI "Statutory and General Information" to the Prospectus (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group.

The Group is principally engaged in the manufacture and sale of personal care and household hygiene products. The Company and its subsidiaries have adopted 31 December as their financial year end date. The particulars of the Company and its subsidiaries are set out in note 1 of Section II below.

The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods and the combined statements of financial position of the Group as at 31 December 2008, 2009 and 2010, together with the notes thereto set out in this report (the "Financial Information") have been prepared based on the audited financial statements and, where appropriate, management accounts of the companies now comprising the Group, and have been prepared on the bases set out in notes 1 and 2.1 of Sections II below. No statement of adjustments as defined under Rule 4.15 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") is considered necessary.

The directors of the Company (the "Directors") are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with International Financial

Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The directors of the respective companies of the Group are responsible for the preparation and the true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information, financial statements and management accounts that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion thereon to you.

Procedures performed in respect of the Financial Information

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion in respect of the Financial Information for the Relevant Periods

In our opinion, the Financial Information for the Relevant Periods prepared on the bases of presentation and preparation set out in notes 1 and 2.1 of Section II below gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2008, 2009 and 2010, and of the combined results and combined cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

Combined income statements

	Notes	Year ended 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
REVENUE	5	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	5	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	6	(2,410)	(5,142)	(1,638)
PROFIT BEFORE TAX	7	99,416	126,266	167,900
Income tax expense	10	(27,192)	(34,467)	(23,431)
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE YEAR		72,224	91,799	144,469

Details of the dividends for the Relevant Periods are disclosed in note 11 to the Financial Information.

Combined statements of comprehensive income

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
PROFIT FOR THE YEAR	72,224	91,799	144,469
Other comprehensive income:			
Exchange differences on translating foreign operations	27	16	2,191
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE YEAR	72,251	91,815	146,660

Combined statements of financial position

		31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	13	27,703	46,140	82,067
Prepaid land lease payments	14	4,112	25,280	20,466
Intangible assets	15	3,555	3,375	144
Available-for-sale investments	16	250	550	—
Prepayments and deposits	19	21,141	100	8,387
Total non-current assets		56,761	75,445	111,064
CURRENT ASSETS				
Inventories	17	30,384	34,323	34,737
Trade and bills receivables	18	35,609	74,559	59,149
Amounts due from related parties	30(ii)	10,731	11,091	26,144
Prepayments, deposits and other receivables	19	11,992	2,337	3,731
Pledged deposits	20	2,997	3,662	2,350
Cash and cash equivalents	20	27,786	114,442	72,299
Total current assets		119,499	240,414	198,410
CURRENT LIABILITIES				
Trade and bills payables	21	9,390	35,270	33,894
Other payables and accruals	22	6,978	14,028	17,211
Interest-bearing bank and other borrowings	23	45,700	85,728	—
Amounts due to related parties	30(ii)	1,218	2,025	89,565
Tax payable		8,191	12,210	7,349
Total current liabilities		71,477	149,261	148,019
NET CURRENT ASSETS		48,022	91,153	50,391
TOTAL ASSETS LESS CURRENT LIABILITIES		104,783	166,598	161,455
NON-CURRENT LIABILITY				
Interest-bearing bank loan	23	—	20,000	15,800
Total non-current liability		—	20,000	15,800
Net assets		104,783	146,598	145,655
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	24	11	11	11
Reserves	25	104,772	146,587	145,644
Total equity		104,783	146,598	145,655

Combined statements of changes in equity

	Attributable to ordinary equity holders of the Company					
	Issued capital	**Merger reserve**	**Statutory reserve fund**	**Exchange fluctuation reserve**	**Retained profits**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
	(Note a)	**(Note b)**	**(Note c)**			
At 1 January 2008	11	20,000	15,747	65	41,709	77,532
Exchange differences on translation of foreign operations	—	—	—	27	—	27
Profit for the year	—	—	—	—	72,224	72,224
Total comprehensive income for the year	—	—	—	27	72,224	72,251
Transfer to statutory reserve	—	—	10,225	—	(10,225)	—
Final 2007 dividend paid (note 11)	—	—	—	—	(45,000)	(45,000)
At 31 December 2008 and 1 January 2009	**11**	**20,000***	**25,972***	**92***	**58,708***	**104,783**
Exchange differences on translation of foreign operations	—	—	—	16	—	16
Profit for the year	—	—	—	—	91,799	91,799
Total comprehensive income for the year	—	—	—	16	91,799	91,815
Final 2008 dividend paid (note 11)	—	—	—	—	(50,000)	(50,000)
At 31 December 2009 and 1 January 2010	**11**	**20,000***	**25,972***	**108***	**100,507***	**146,598**
Exchange differences on translation of foreign operations	—	—	—	2,191	—	2,191
Profit for the year	—	—	—	—	144,469	144,469
Total comprehensive income for the year	—	—	—	2,191	144,469	146,660
Deemed appropriations to equity holders	—	(20,000)**	(25,972)**	—	(101,631)**	(147,603)
Transfer to statutory reserve	—	—	14,690	—	(14,690)	—
At 31 December 2010	**11**	**—***	**14,690***	**2,299***	**128,655***	**145,655**

Note:

* These reserve accounts comprise the combined reserves of RMB104,772,000, RMB146,587,000 and RMB145,644,000 in the combined statements of financial position as at 31 December 2008, 2009 and 2010, respectively.

** As part of the Reorganisation, on 1 January 2010, the Group acquired the entire business except for the manufacture of sunscreen, air freshener and insecticide products (the "Business") from Fujian Shuangfei Daily Chemicals Co., Ltd. ("Fujian Shuangfei"), a domestic enterprise under the laws of the People's Republic of China (the "PRC") owned by Mr. Li Zhenhui and Mr. Xie Jinling (hereinafter collectively referred to as the "Controlling Shareholders"). Except for the intangible assets, inventories, trade receivables and trade payables acquired by the Group, the assets and liabilities related to the Business retained by Fujian Shuangfei (the "Retained Assets") have been reflected as appropriations to the ultimate shareholders (i.e., the Controlling Shareholders) in the combined statements of changes in equity on the date of completion of the business acquisition.

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

Notes:

(a) During the year ended 31 December 2002, Prince Frog (HK) Daily Chemicals Company Limited ("Prince Frog (HK)") was incorporated with authorised share capital of HK$10,000 of 10,000 shares of HK$1 each and 10,000 shares of HK$1 each were issued. The share capital represented the share capital of Prince Frog (HK) as at 31 December 2008 and 2009. During the year ended 31 December 2010, Prince Frog Investment Limited ("Prince Frog Investment") was incorporated with authorised share capital of US$5,000 of 50,000 shares of US$0.1 each and 100 shares of US$0.1 each were issued. As at 31 December 2010, the share capital represented the combined share capital of Prince Frog (HK) of HK$10,000 and Prince Frog Investment of US$10.

(b) The merger reserve of the Group represents the reserve arose pursuant to the reorganisation as mentioned in note 1 of Section II to the Financial Information.

(c) In accordance with the Company Law of the PRC, the Company's subsidiary and Fujian Shuangfei registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

Combined statements of cash flows

		Year ended 31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		99,416	126,266	167,900
Adjustments for:				
Finance costs	6	2,410	5,142	1,638
Bank interest income	5	(275)	(282)	(119)
Dividend income from available-for-sale investments	5	(62)	(67)	(98)
Loss on disposal of items of property, plant and equipment	7	507	43	—
Gain on disposal of intangible assets	5	—	—	(343)
Depreciation	7	2,809	2,632	1,516
Amortisation of prepaid land lease payments	7	93	93	795
Amortisation of intangible assets	7	22	180	359
		104,920	134,007	171,648
Increase in inventories		(13,289)	(3,939)	(414)
Decrease/(increase) in trade and bills receivables		6,021	(38,950)	15,410
Decrease/(increase) in prepayments, deposits and other receivables		10,734	10,089	(1,608)
Increase in trade and bills payables		329	25,880	2,286
Increase/(decrease) in other payables and accruals		(2,263)	7,050	22,996
Movements in balances with related parties		(10,759)	447	(68,385)
Exchange realignment		27	16	2,191
Cash generated from operations		95,720	134,600	144,124
Interest received		275	282	119
Interest paid		(2,410)	(5,142)	(1,638)
PRC tax paid		(27,711)	(30,448)	(16,082)
Net cash flows from operating activities		65,874	99,292	126,523
CASH FLOWS FROM INVESTING ACTIVITIES				
Prepayments for purchase of land use right, net		(12,040)	(654)	—
Purchase of intangible assets		(686)	—	—
Purchases of items of property, plant and equipment	13	(12,888)	(21,112)	(51,807)
Dividend income from available-for-sale investments	5	62	67	98
Prepayments for purchase of items of property, plant and equipment	19	—	—	(8,287)
Increase in pledged deposits		(52)	(665)	(2,350)
Purchases of available-for-sale investments		—	(300)	—
Net cash flows used in investing activities		(25,604)	(22,664)	(62,346)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash distributed to equity holders upon Reorganisation	20	—	—	(108,392)
New bank loans		45,700	105,728	58,800
Repayment of bank loans		(21,700)	(45,700)	(56,728)
Dividend paid		(45,000)	(50,000)	—
Net cash flows from/(used in) financing activities		(21,000)	10,028	(106,320)

	Notes	Year ended 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		19,270	86,656	(42,143)
Cash and cash equivalents at beginning of year		8,516	27,786	114,442
Exchange realignment		—	—	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		27,786	114,442	72,299
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	20	27,786	78,842	72,299
Non-pledged time deposits with original maturity of less than three months when acquired	20	—	35,600	—
Cash and cash equivalents		27,786	114,442	72,299

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 January 2011. The Company's registered office is located at the office of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal place of business is located in Longwen Industrial Development Zone, Zhangzhou City, Fujian Province, the PRC.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which have characteristics substantially similar to a private company incorporated in Hong Kong, the particulars of which are set out below:

Company name	Place and date of incorporation/establishment and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Subsidiaries					
Prince Frog Investment[1]	British Virgin Islands ("BVI") 3 December 2010	US$10	100	—	Investment holding
Prince Frog (HK)[2]	Hong Kong 5 July 2002	HK$10,000	—	100	Investment holding
青蛙王子(中國)日化有限公司[3,4,5] Frog Prince (China) Daily Chemicals Co., Ltd. ("Frog Prince (China)")	PRC/Mainland China 28 February 2005	US$10,000,000	—	100	Manufacture and sale of personal care and household hygiene products

As at the date of this report, no statutory audited financial statements have been prepared for the Company since the date of its incorporation as the Company has not been involved in any significant business transactions other than the Reorganisation described in the section "History and Reorganisation" in the Prospectus and in Appendix VI "Statutory and General Information" to the Prospectus. We have, however, performed our own independent audit of all relevant transactions of the Company since the date of its incorporation.

Notes:

1 No statutory audited financial statements have been prepared for Prince Frog Investment since it is not subject to any statutory audit requirements under its jurisdiction of incorporation.

2 Its name changed from "Frogprince (H.K.) Daily Chemicail Limited" to "Prince Frog (HK) Daily Chemicals Company Limited" effective 5 October 2010. The statutory financial statements prepared in accordance with Hong Kong Financial Reporting Standards thereof for the years ended 31 December 2008 and 2009 were audited by Joseph K.H. Ng & Co., certified public accountants registered in Hong Kong.

3 It is registered as a wholly-foreign-owned enterprise under the laws of the PRC. Its name changed from "青蛙王子（漳州）日化有限公司" to "青蛙王子（中國）日化有限公司" and it adopted the English name "Frog

Prince (China) Daily Chemicals Co., Ltd." to replace "Frog Prince (Zhangzhou) Daily Chemicals Co., Ltd." effective 25 November 2009. The statutory financial statements prepared in accordance with the generally accepted accounting principles and the relevant financial regulations of the PRC thereof for the years ended 31 December 2008, 2009 and 2010 were audited by 廈門誠聯興會計師事務所有限公司 (Xiamen Chenglianxing Certified Public Accountants Co., Ltd.), 福建中浩會計師事務所有限公司 (Fujian Zhonghao Certified Public Accountants Co., Ltd.) and 漳州承信會計師事務所有限責任公司(Zhangzhou Chengxin Certified Public Accountants Firm Co., Ltd.), respectively.

4 The operations of the Group were initially conducted through Fujian Shuangfei, a domestic enterprise under the laws of the PRC owned by the Controlling Shareholders. On 31 December 2009, certain contractual arrangements were effectuated among Frog Prince (China) and Fujian Shuangfei to the effect that certain of the business, liabilities and assets of Fuijian Shuangfei were transferred to Frog Prince (China) effective from 1 January 2010.

5 On 4 August 2009 and 26 August 2010, capital injections of US$2,000,000 and US$7,935,000 were made by the Group to Frog Prince (China), respectively, and the paid-up registered capital of Frog Prince (China) was increased from US$65,000 to US$10,000,000 during the Relevant Periods.

As part of the Reorganisation, on 1 January 2010, the Group acquired from Fujian Shuangfei the manufacture and sale business of its products except for the manufacture of sunscreen, air freshener and insecticide products (the "Business"). The Business together with relevant assets and liabilities which are necessary to the Business, were transferred to the companies now comprising the Group. In view of the Group's plan to relocate to new production premises in the near future and to facilitate its business expansion, certain assets and liabilities of Fujian Shuangfei historically associated with the Business, for which the results for the Relevant Periods have been included in the Financial Information, were not transferred to the Group and were retained by Fujian Shuangfei (the "Retained Assets") upon the completion of the transfer of Business on 1 January 2010. The Retained Assets have been disclosed in notes 10, 13, 14, 16, 19, 20, 21, 22, 23 and 30.

The particulars of Fujian Shuangfei as at 1 January 2010 are set out below:

Company name	Place and date of establishment and operations	Nominal value of paid-up registered capital	Attributable equity interest held by the Controlling Shareholders	Principal activities
福建雙飛日化有限公司 Fujian Shuangfei	PRC/Mainland China 18 May 2001	RMB20,000,000	100%	Manufacture and sale of personal care and household hygiene products

The Controlling Shareholders controlled the Business of Fujian Shuangfei before the Reorganisation and continue to control the companies now comprising the Group after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits of the Business to the Controlling Shareholders, and therefore the Financial Information has been prepared as a business combination under common control. The Financial Information has been prepared using the principles of merger accounting as if the Business of Fujian Shuangfei had been operated by the companies now comprising the Group until the transfer of the Business from Fujian Shuangfei to the Group and the current group structure had been in existence throughout the Relevant Periods.

For the purpose of this report, all the results related to the operations of the Business of Fujian Shuangfei for the years ended 31 December 2008 and 2009 are combined in the Financial Information. The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the years ended 31 December 2008 and 2009 as set out in

Section I include the results of operations of the Business of Fujian Shuangfei and the companies now comprising the Group. Upon the transfer of the Business from Fujian Shuangfei to the Group as at 1 January 2010 as mentioned above, the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the year ended 31 December 2010 only include the results of the companies now comprising the Group.

Fujian Shuangfei's assets and liabilities which are related to the Business are combined into the Financial Information using their existing book values. The combined statements of financial position of the Group as at 31 December 2008 and 2009 as set out in Section I have been prepared to present the state of affairs of the Business of Fujian Shuangfei and the companies now comprising the Group, and the combined statement of financial position as at 31 December 2010 has been prepared to present the state of affairs of the companies now comprising the Group as at that date. In effect, the Financial Information combined the assets and liabilities acquired by the Group, the Retained Assets and the results of operations relating to the Business using merger accounting until the transfer of the Business from Fujian Shuangfei to the Group. On 1 January 2010, the Retained Assets were reflected as deemed appropriations to the equity holders in the combined statement of changes in equity.

2.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the IASB.

The IASB issued a number of new or revised IFRSs which are generally effective for annual periods beginning on or after 1 January 2008, 1 January 2009 and 1 January 2010.

For the purpose of preparing and presenting the Financial Information, the Group has early adopted all these new and revised IFRSs that are relevant to the Group's operations as at the beginning of the Relevant Periods. As the Company was incorporated on 11 January 2011, no financial statements are presented for the Company.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The Financial Information has been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information.

IFRS 1 Amendments	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2]
	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
IFRS 9	*Financial Instruments*[7]
IFRS 10	Consolidated Financial Statements[7]
IFRS 11	Joint Arrangements[7]
IFRS 12	Disclosure of Interests in Other Entities[7]
IFRS 13	Fair Value Measurement[7]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements*[6]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[5]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[7]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 27 (Revised)	Separate Financial Statements[7]
IAS 28 (Revised)	Investments in Associates and Joint Ventures[7]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation - Classification of Rights Issues*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

1 Effective for annual periods beginning on or after 1 February 2010

2 Effective for annual periods beginning on or after 1 July 2010

3 Effective for annual periods beginning on or after 1 January 2011

4 Effective for annual periods beginning on or after 1 July 2011

5 Effective for annual periods beginning on or after 1 January 2012

6 Effective for annual periods beginning on or after 1 July 2012

7 Effective for annual periods beginning on or after 1 January 2013

Apart from the above, *Improvements to IFRSs 2010* has been issued which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on its results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of combination

The Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. The financial statements of the combining entities or businesses under common control are prepared for the same reporting period as the Company, using consistent accounting policies.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control or since their respective dates of incorporation/establishment, where this is a shorter period, regardless of the date of the common control combination.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on combination.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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, the 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. The principal annual rates used for this purpose are as follows:

Leasehold buildings	Over the shorter of the lease terms and 5%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	20% to 33 1/3%
Motor vehicles	20% to 25%

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.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial period end.

Trademarks

The costs of acquiring the trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over the estimated economic life of ten years.

Research and development costs

All research costs are charged to the income statement as incurred.

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 the 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include trade receivables, amounts due from related parties, other receivables, cash and cash equivalents, pledged deposits and available-for-sale financial investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The 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, the 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 the 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, the 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties and interest-bearing bank and other borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the 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 the 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.

Employee benefits

Pension scheme

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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 the Company's functional and presentation currency. Each entity in the 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 the 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 the 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustments to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Financial Information:

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considered that if it is probable that the profits of the subsidiary in the PRC will not be distributed in the foreseeable future, then no withholding taxes should be provided.

Estimation uncertainty

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

Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has four reportable operating segments as follows:

(a) the children's personal care products segment manufactures and trades Frog Prince branded skin care, body and hair care, oral care and diaper products;

(b) the household hygiene products segment manufactures and trades Shuangfeijian branded insecticide products and Shenhuxi branded air freshener; and

(c) the adults' personal care products segment manufactures and trades Frog Prince branded oral care products and other skin care products; and

(d) the others products segment comprises, principally, the manufactures of skin care products, body and hair care products for branding and resale by others.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, other unallocated income and gains, finance costs as well as corporate and unallocated expenses are excluded from such measurement.

Segment assets exclude construction in progress, prepaid land lease payments, available-for-sale investments, prepayments, deposits and other receivables, amounts due from related parties, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude other payables and accruals, interest-bearing bank and other borrowings, amounts due to related parties and tax payable as these liabilities are managed on a group basis.

	Children's personal care products	Household hygiene products	Adults' personal care products	Other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2008					
Segment revenue:					
Sales to external customers	285,473	84,305	40,559	63,629	473,966
Segment results	116,942	24,638	14,473	15,117	171,170
Interest income					275
Dividend income and unallocated gains					500
Corporate and other unallocated expenses					(70,119)
Finance costs					(2,410)
Profit before tax					99,416
Segment assets	50,001	19,003	5,822	10,963	85,789
Reconciliation:					
Corporate and other unallocated assets					90,471
Total assets					176,260
Segment liabilities	4,487	1,671	74	3,158	9,390
Reconciliation:					
Corporate and other unallocated liabilities					62,087
Total liabilities					71,477
Other segment information:					
Depreciation and amortisation	1,819	622	104	379	2,924
Capital expenditure	1,041	195	53	3,565	4,854

	Children's personal care products	Household hygiene products	Adults' personal care products	Other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2009					
Segment revenue:					
Sales to external customers	377,171	109,424	60,107	77,694	624,396
Segment results	161,747	29,843	23,387	18,933	233,910
Interest income					282
Dividend income and unallocated gains					1,710
Corporate and other unallocated expenses					(104,494)
Finance costs					(5,142)
Profit before tax					126,266
Segment assets	69,286	30,209	9,932	18,611	128,038
Reconciliation:					
Corporate and other unallocated assets					187,821
Total assets					315,859
Segment liabilities	14,702	8,786	3,676	8,106	35,270
Reconciliation:					
Corporate and other unallocated liabilities					133,991
Total liabilities					169,261
Other segment information:					
Depreciation and amortisation	1,584	587	108	626	2,905
Capital expenditure	966	438	82	729	2,215

	Children's personal care products	Household hygiene products	Adults' personal care products	Other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010					
Segment revenue:					
Sales to external customers	535,651	180,039	45,680	76,621	837,991
Segment results	208,024	41,083	17,333	16,577	283,017
Interest income					119
Dividend income and unallocated gains					873
Corporate and other unallocated expenses					(114,471)
Finance costs					(1,638)
Profit before tax					167,900
Segment assets	61,701	26,713	4,849	11,591	104,854
Reconciliation:					
Corporate and other unallocated assets					204,620
Total assets					309,474
Segment liabilities	17,159	8,725	722	7,288	33,894
Reconciliation:					
Corporate and other unallocated liabilities					129,925
Total liabilities					163,819
Other segment information:					
Depreciation and amortisation	1,487	482	118	583	2,670
Capital expenditure	2,436	454	116	509	3,515

Geographical Information

Since over 90% of the Group's revenue was generated from the sale of personal care and household hygiene products in Mainland China and over 90% of the Group's identifiable assets and liabilities were located in Mainland China, no geographical information is presented in accordance with IFRS 8 *Operating Segments*.

Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue during the Relevant Periods, therefore no information about major customers is presented.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue			
Sales of goods	473,966	624,396	837,991
Other income and gains			
Bank interest income	275	282	119
Government subsidies*	344	1,378	67
Dividend income from available-for-sale investments	62	67	98
Net fair value gains on foreign exchange derivative financial instruments — transactions not qualified as hedges	58	—	—
Gain on disposal of intangible assets	—	—	343
Others	36	265	365
	775	1,992	992
	474,741	626,388	838,983

* There are no unfulfilled conditions or contingencies relating to these subsidies.

6. FINANCE COSTS

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Interest on bank and other loans wholly repayable within five years	2,410	5,142	1,638

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
Cost of inventories sold		291,074	385,412	515,052
Depreciation*	13	2,809	2,632	1,516
Amortisation of prepaid land lease payments	14	93	93	795
Amortisation of intangible assets	15	22	180	359
Minimum lease payments under operating leases on land and buildings*		804	1,125	4,759
Loss on disposal of items of property, plant and equipment#		507	43	—
Loss on disposal of available-for-sale investments#		—	—	88
Employee benefit expenses* (including directors' remuneration (note 8)):				
Wages and salaries		20,421	27,212	35,715
Retirement benefit scheme contributions		400	479	591
		20,821	27,691	36,306
Auditors' remuneration		4	28	11
Dividend income from available-for-sale investments		(62)	(67)	(98)
Research and development costs#		658	771	1,592
Net foreign exchange loss, excluding net fair value gains on foreign exchange derivative financial instruments		613	341	1,952
Write-off of trade receivables/(recovery of trade receivables previously written off)#		1,597	(89)	141

These amounts are included in "Administrative expenses" in the combined income statements.

* Included in the respective balances are the following amounts which are also included in cost of inventories sold disclosed above:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Depreciation	1,728	1,641	208
Minimum lease payments under operating leases on land and buildings	804	859	3,338
Employee benefit expenses	9,340	13,337	16,937
	11,872	15,837	20,483

8. DIRECTORS' REMUNERATION

Directors' remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Fees	—	—	—
Other emoluments:			
Salaries and bonuses	280	289	285
Retirement benefit scheme contributions	4	4	6
	284	293	291

(a) Non-executive directors

Mr. Yang Feng was appointed as the non-executive director of the Company on 18 February 2011. There were no fees or other emoluments payable to non-executive director during the Relevant Periods.

Mr. Chen Shaojun, Mr. Ren Yunan and Mr. Wong Wai Ming were appointed as independent non-executive directors of the Company on 18 February 2011. There were no fees or other emoluments payable to independent non-executive directors during the Relevant Periods.

(b) Executive directors

In respect of individuals, who act as executive directors of the Company as at the date of this report, the remuneration received or receivable from the Group during each of the Relevant Periods is as follows:

	Fees	Salaries and bonuses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2008				
Mr. Li Zhenhui ("Mr. Li")	—	168	2	170
Mr. Xie Jinling ("Mr. Xie")	—	112	2	114
	—	280	4	284
Year ended 31 December 2009				
Mr. Li	—	172	2	174
Mr. Xie	—	117	2	119
	—	289	4	293
Year ended 31 December 2010				
Mr. Li	—	170	3	173
Mr. Xie	—	115	3	118
	—	285	6	291

Mr. Ge Xiaohua, Mr. Huang Xinwen and Ms. Hong Fang were appointed as executive directors of the Company on 18 February 2011. There were no fees or other emoluments payable to them during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the Relevant Periods included one director for the years ended 31 December 2008 and 2009, details of whose remuneration details are set out in note 8 above. Details of the remuneration of the remaining four non-director, highest paid employees for the years ended 31 December 2008 and 2009 and the remuneration of the five non-director, highest paid employees for the year ended 31 December 2010 are analysed as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Salaries and bonuses	457	582	889
Retirement benefit scheme contributions	7	4	9
	464	586	898

During the years ended 31 December 2008, 2009 and 2010, the remuneration of the non-director, highest paid employees fell within the band of Nil to RMB500,000.

During the Relevant Periods, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons, who were directors, waived or agreed to waive any emoluments during the Relevant Periods.

10. INCOME TAX

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

Taxes on profits assessable in Mainland 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, the PRC Corporate Income Tax Law was approved and became effective on 1 January 2008. The 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 and foreign-invested enterprises at 25%. Fujian Shuangfei, a domestic enterprise operating in Mainland 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 issued by The State Council of the PRC on 26 December 2007, effective from 1 January 2008, Frog Prince (China), a wholly-owned subsidiary of the Group operating in Mainland China and a wholly-foreign-owned enterprise, was exempted from the 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 (the "Tax Holiday"). With effective from 1 January 2013, the applicable tax rate will be 25%.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if the foreign investors are entitled to enjoy the reduced tax rate (if any) under the tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2010, there was no significant unrecognised deferred tax liability (2009: Nil; 2008: Nil) for taxes that would be payable on the remitted earnings of the Group's subsidiary established in Mainland China.

The major components of the income tax expense for the Relevant Periods are as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Group:			
Current — Mainland China			
Charge for the year	27,192	34,467	23,431
Total tax charge for the year	27,192	34,467	23,431

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates to the tax expense at the Group's effective tax rates is as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Profit before tax	99,416	126,266	167,900
Tax at the applicable tax rates	24,978	31,708	42,282
Lower tax rate due to Tax Holiday	—	—	(21,419)
Income not subject to tax	(15)	(39)	—
Expenses not deductible for tax	3,351	2,829	2,921
Others	(1,122)	(31)	(353)
Tax charge at the Group's effective tax rates	27,192	34,467	23,431

Pursuant to the Reorganisation, tax payable with a carrying value of RMB12,210,000 at 1 January 2010, was retained by Fujian Shuangfei and had been reflected as deemed appropriations to the equity holders of the Company.

11. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation.

The dividend paid by Fujian Shuangfei to its then shareholders during the Relevant Periods were as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Dividend	45,000	50,000	—

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods on the combined basis as disclosed in note 1 above.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2008						
Cost:						
At 1 January 2008	14,378	6,790	1,570	2,907	—	25,645
Additions	—	741	293	392	11,462	12,888
Disposals	—	(255)	—	(258)	—	(513)
At 31 December 2008	14,378	7,276	1,863	3,041	11,462	38,020
Accumulated depreciation:						
At 1 January 2008	3,155	2,662	568	1,129	—	7,514
Charge for the year	808	1,287	315	399	—	2,809
Disposals	—	—	—	(6)	—	(6)
At 31 December 2008	3,963	3,949	883	1,522	—	10,317
Net book value:						
At 31 December 2008	10,415	3,327	980	1,519	11,462	27,703
At 31 December 2007	11,223	4,128	1,002	1,778	—	18,131
31 December 2009						
Cost:						
At 1 January 2009	14,378	7,276	1,863	3,041	11,462	38,020
Additions	—	1,368	200	647	18,897	21,112
Disposals	—	(183)	(21)	—	—	(204)
At 31 December 2009	14,378	8,461	2,042	3,688	30,359	58,928
Accumulated depreciation:						
At 1 January 2009	3,963	3,949	883	1,522	—	10,317
Charge for the year	808	1,187	339	298	—	2,632
Disposals	—	(149)	(12)	—	—	(161)
At 31 December 2009	4,771	4,987	1,210	1,820	—	12,788
Net book value:						
At 31 December 2009	9,607	3,474	832	1,868	30,359	46,140
At 31 December 2008	10,415	3,327	980	1,519	11,462	27,703

	Leasehold buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2010						
Cost:						
At 1 January 2010	14,378	8,461	2,042	3,688	30,359	58,928
Additions	—	1,544	319	1,652	48,292	51,807
Deemed appropriations to equity holders*	(14,378)	(8,400)	(2,013)	(2,361)	—	(27,152)
Transfers	7,408	—	—	—	(7,408)	—
At 31 December 2010	7,408	1,605	348	2,979	71,243	83,583
Accumulated depreciation:						
At 1 January 2010	4,771	4,987	1,210	1,820	—	12,788
Charge for the year	323	140	54	999	—	1,516
Deemed appropriations to equity holders*	(4,771)	(4,987)	(1,210)	(1,820)	—	(12,788)
At 31 December 2010	323	140	54	999	—	1,516
Net book value:						
At 31 December 2010	7,085	1,465	294	1,980	71,243	82,067
At 31 December 2009	9,607	3,474	832	1,868	30,359	46,140

* These represented the leasehold buildings, plant and machinery, furniture, fixtures and office equipment and motor vehicles not acquired by the Group upon the transfer of the Business of Fujian Shuangfei to the Group on 1 January 2010 (note 1). Pursuant to the Reorganisation, the Group has entered into lease agreements with Fujian Shuangfei and continued to use these property, plant and equipment through operating lease arrangements with lease term expiring in 2012.

The Group's buildings are located in Mainland China and are held under medium term leases.

Included in "Leasehold buildings" are properties for self-use with a total carrying amounts of approximately RMB1,735,000, RMB1,485,000 and RMB7,085,000 at 31 December 2008, 2009 and 2010, respectively, of which the Group has not yet obtained the building ownership certificates. Leasehold buildings with carrying value of RMB1,735,000 and RMB1,485,000 at 31 December 2008 and 2009, respectively, represented the same leasehold building retained by Fujian Shuangfei on 1 January 2010. Subsequent to year ended 31 December 2010, the Group has obtained the building certificate for leasehold building with a carrying value of RMB7,085,000 at 31 December 2010 on 21 February 2011. In addition, certain construction in progress with carrying amounts of RMB58,596,000 and RMB9,905,000 as at 31 December 2010 were transferred to "Leasehold buildings" subsequently upon completion of construction and the Group has obtained the building ownership certificates for these buildings on 6 January 2011 and 21 February 2011, respectively.

The Group's building with a carrying value of approximately RMB8,680,000 as at 31 December 2008 was pledged to secure the banking facilities granted to the Group (note 23).

14. PREPAID LAND LEASE PAYMENTS

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	4,298	4,205	25,807
Additions	—	21,695	—
Deemed appropriations to equity holders*	—	—	(4,112)
Recognised during the year	(93)	(93)	(795)
Carrying amount at 31 December	4,205	25,807	20,900
Current portion included in prepayments, deposits and other receivables	(93)	(527)	(434)
Non-current portion	4,112	25,280	20,466

* Pursuant to the Reorganisation, land use right with a carrying value of RMB4,112,000 (including RMB93,000 current portion included in prepayments, deposits and other receivables) at 1 January 2010, of which the current portion of RMB93,000 was included in prepayments and other receivables, was retained by Fujian Shuangfei and had been reflected as deemed appropriations to the equity holders of the Company.

The Group's leasehold lands are located in Mainland China and are held under medium term leases.

Pursuant to an agreement signed between Fujian Shuangfei and 漳州市龍文經濟開發區有限公司 (Zhangzhou Longwen Economic Development Zone Co. Ltd.) on 15 October 2006, prepayments of RMB7,000,000 and RMB2,000,000 were paid during the years ended 31 December 2006 and 2007, respectively, by Fujian Shaungfei for the acquisition of a parcel of land in Zhangzhou, Fujian Province, the PRC. In June 2008, Fujian Shuangfei entered into another agreement with 漳州市龍文經濟開發區有限公司 for the cancellation of the aforesaid agreement. Fujian Shuangfei received the refund of prepayments of RMB684,000 and the remaining amount of RMB8,316,000 during the years ended 31 December 2008 and 2009, respectively. On 6 June 2008, agreements were signed between Fujian Shuangfei and 漳州市藍田經濟開發區管理委員會 (Zhangzhou Lantian Economic Development Zone Administration Committee, "藍田經濟開發區管委會") for the acquisition of another two parcels of land in Zhangzhou, and these agreements were subject to subsequent agreements that were to be signed between the Group and The Land and Resource Department of Zhangzhou (漳州市國土資源局). Pursuant to the agreements with 藍田經濟開發區管委會, prepayments of RMB8,516,000 and RMB4,208,000 were paid by the Group to 藍田經濟開發區管委會 and 漳州市龍文區財政局, respectively, during the year ended 31 December 2008. On 23 February 2009, agreements were signed between the Group and The Land and Resource Department of Zhangzhou (漳州市國土資源局) for the confirmation of the assignment of the two parcels of land and the amount of consideration. In March 2009, prepayments of RMB8,516,000 which were paid to 藍田經濟開發區管委會 during the year ended 31 December 2008 were refunded to the Group and further prepayments of RMB16,834,000 were paid to 漳州市龍文區財政局 (Zhangzhou Longwen District Finance Bureau). In May 2009, the Group obtained the land use rights certificates for the aforesaid two parcels of land. An aggregate cost of RMB21,695,000 (including transaction costs) was recognised as prepaid land lease payments in the year ended 31 December 2009.

15. INTANGIBLE ASSETS

	Trademarks
	RMB'000
Cost:	
At 1 January 2008	160
Additions	3,428
At 31 December 2008, 2009 and 1 January 2010	3,588
Disposals*	(3,428)
At 31 December 2010	160
Accumulated amortisation:	
At 1 January 2008	11
Provided during the year	22
At 31 December 2008 and 1 January 2009	33
Provided during the year	180
At 31 December 2009 and 1 January 2010	213
Retained by Fujian Shuangfei	(213)
Provided during the year	359
Disposals*	(343)
At 31 December 2010	16
Net carrying amount:	
At 31 December 2010	144
At 31 December 2009	3,375
At 31 December 2008	3,555

* Pursuant to the Reorganisation, at 1 January 2010, intangible assets with an aggregate net carrying value of RMB3,375,000 were transferred from Fujian Shuangfei to the Group at cash consideration of RMB3,428,000, and the accumulated amortisation of RMB213,000 was retained by Fujian Shuangfei. During the year ended 31 December 2010, intangible assets with an aggregate net carrying value of RMB3,085,000 of the Group were disposed of to Fujian Shuangfei at an aggregate cash consideration of RMB3,428,000. The directors confirmed that the considerations were charged on a basis mutually agreed by both parties.

16. AVAILABLE-FOR-SALE INVESTMENTS

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Unlisted equity investment fund, at cost	—	300	—
Unlisted other equity investment, at cost	250	250	—
	250	550	—

Pursuant to the Reorganisation, available-for-sale investments with an aggregate carrying value of RMB550,000 at 1 January 2010 were retained by Fujian Shuangfei and had been reflected as deemed appropriations to the equity holders of the Company.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

17. INVENTORIES

	Year ended 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
	30,384	34,323	34,737

18. TRADE AND BILLS RECEIVABLES

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables	35,609	74,559	58,949
Bills receivable	—	—	200
	35,609	74,559	59,149

The Group's trading terms with its 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.

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

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

	Year ended 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:

			Past due but not impaired			
	Total	Neither past due nor 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	45,411	28,433	571	3	141
31 December 2010	59,149	49,036	10,052	61	—	—

The Group's trade and bills receivables that were neither past due nor impaired mainly represent sales made to recognised and creditworthy customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. 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. The Group does not hold any collateral or other credit enhancements over these balances.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Year ended 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

Pursuant to the Reorganisation, prepayments and other receivables with an aggregate carrying value of RMB214,000 at 1 January 2010 were retained by Fujian Shuangfei and had been reflected as deemed appropriations to the equity holders of the Company.

At 31 December 2008, 2009 and 2010, the net balance of 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.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash and bank balances	27,786	78,842	72,299
Time deposits	2,997	39,262	2,350
	30,783	118,104	74,649
Less: Pledged time deposits			
Pledged for bills payables	(2,629)	(3,662)	(1,780)
Pledged for banking facilities on foreign exchange derivative financial instruments	(368)	—	(570)
Cash and cash equivalents	27,786	114,442	72,299

Pursuant to the Reorganisation, pledged deposits and cash and cash equivalents with aggregate carrying values of RMB3,662,000 and RMB108,392,000, respectively at

1 January 2010, were retained by Fujian Shuangfei and had been reflected as deemed appropriations to the equity holders of the Company.

At 31 December 2008, 2009 and 2010, the Group's cash and cash equivalents denominated in RMB amounted to RMB27,754,000, RMB103,638,000 and RMB50,383,000, respectively. RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and six months, and earn interest at the short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

21. TRADE AND BILLS PAYABLES

An aged analysis of the trade payables as at 31 December 2008, 2009 and 2010, based on the invoice date, is as follows:

	Year ended 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

Pursuant to the Reorganisation, bills payables with an aggregate carrying value of RMB3,662,000 at 1 January 2010 were retained by Fujian Shuangfei and had been reflected as deemed appropriations to the equity holders of the Company.

The trade and bills payables are non-interest-bearing and are normally settled on one to six months' terms. The bills payables were secured by pledge of certain of the Group's time deposits amounting to RMB2,629,000, RMB3,662,000 and RMB1,780,000 as at 31 December 2008, 2009 and 2010, respectively.

Fujian Shuangfei owned 50.5% equity interests in a major supplier of the Group, namely 漳州永和輝塑膠有限公司 (Zhangzhou Yonghehui Plastic Co., Ltd. "永和輝"), for the period from October 2006 to July 2009. Subsequent to July 2009 and up to the date of this report, no equity interests in 永和輝 were held by Fujian Shuangfei. The Controlling Shareholders confirmed that the 50.5% equity interests in 永和輝 were held under a trust arrangement. Pursuant to the trust agreements entered into amongst Fujian Shuangfei, the Controlling Shareholders and the remaining equity holder of 永和輝 (the "Remaining Equity Holder") on 19 October 2006, Fujian Shuangfei agreed to hold on trust the 50.5% equity interests in 永和輝 on behalf of the Remaining Equity Holder. All the risks and rewards associated with the equity interests held by Fujian Shuangfei and the management roles held by the Controlling Shareholders in 永和輝, were belonged to and exercised by the Remaining Equity

Holder and the operational and financial decisions of 永和輝 were controlled by the Remaining Equity Holder. Fujian Shuangfei and the Controlling Shareholders have no entitlements or obligations over 永和輝. In addition, Fujian Shuangfei and the Controlling Shareholders received no dividends, fees or other emoluments from 永和輝 during the period from October 2006 to July 2009, and the Controlling Shareholders ceased to serve as management of 永和輝 since July 2009. During the years ended 31 December 2009 and 2010, purchases of RMB18,810,000 and RMB32,376,000, which represented 4.8% and 6.1% of the total purchases, respectively, were carried out between Fujian Shuangfei and the Group with 永和輝. Moreover, 永和輝 maintained outstanding balances of RMB3,988,000 and RMB5,693,000, which represented 11.3% and 16.8% of the trade and bills payables of the Group as at 31 December 2009 and 2010, respectively. The Controlling Shareholders confirmed that the purchases from 永和輝 were made according to mutually agreed terms and conditions.

In addition, loan advance of RMB7,800,000 was granted by Fujian Shuangfei to 永和輝 during the year ended 31 December 2008 and included in "Prepayments, deposits and other receivables" in the combined statement of financial position as at 31 December 2008. The loan advance to 永和輝 was unsecured, interest-free and was repayable within one year. This loan advance was fully settled in January 2009.

22. OTHER PAYABLES AND ACCRUALS

	Year ended 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

Pursuant to the Reorganisation, other payables and accruals with an aggregate carrying value of RMB20,026,000 at 1 January 2010 were retained by Fujian Shuangfei and had been reflected as deemed appropriations to the equity holders of the Company.

Other payables are non-interest-bearing and have an average term of one month.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	31 December 2008	31 December 2009	31 December 2010
			RMB'000	RMB'000	RMB'000
Current					
Bank loans — secured	5.6 – 9	January 2009 – June 2010	45,700	67,000	—
Other loan — unsecured	1.1 – 1.2	July 2010	—	13,728	—
Current portion of long term bank loan — secured	5.94	July 2010	—	5,000	—
			45,700	85,728	—
Non-current					
Bank loan — secured	5.94	July 2011 – July 2012	—	20,000	—
Bank loan — unsecured	5.4	April 2013	—	—	15,800
			—	20,000	15,800
			45,700	105,728	15,800

Pursuant to the Reorganisation, interest-bearing bank borrowings with an aggregate carrying value of RMB92,000,000 at 1 January 2010 were retained by Fujian Shuangfei and had been reflected as deemed appropriations to the equity holders of the Company.

Except for the other loan which bear interest at 1% above the Hong Kong Interbank Offered Rate, all bank loans bear interest at interest rates announced by the People's Bank of China per annum and are denominated in RMB.

	31 December 2008	31 December 2009	31 December 2010
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank loans repayable:			
Within one year or on demand	45,700	72,000	—
In the second year	—	15,000	—
In the third to fifth years, inclusive	—	5,000	15,800
	45,700	92,000	15,800
Other loan repayable:			
Within one year	—	13,728	—
	45,700	105,728	15,800

The bank loans were supported by:

(i) At 31 December 2008, a bank loan of RMB7,700,000 was secured by the pledge of the Group's leasehold building with a net carrying amount of approximately RMB8,680,000 as at 31 December 2008.

(ii) At 31 December 2008 and 2009, bank loans with an aggregate amounts 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), independent third parties, and the Controlling Shareholders. Yan Xiaotong, Lin 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 will be fully released prior to the proposed listing of the shares of the Company on the Main Board of the Stock Exchange.

24. ISSUED CAPITAL

The issued capital as at 31 December 2008 and 2009 represented the issued share capital of Prince Frog (HK). The issued capital as at 31 December 2010 represented the combined issued share capital of Prince Frog (HK) and Prince Frog Investment.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 January 2011. The authorised share capital of the Company was HK$50,000 divided into 5,000,000 shares of HK$0.01 each. One nil-paid share was issued and allotted to Codan Trust Company (Cayman) Limited, which was transferred to Prince Frog International Company Limited, a limited liability company incorporated in the BVI on the same date.

25. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the combined statements of changes in equity of the Group.

26. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS

(a) During the year ended 31 December 2008, Fujian Shuangfei purchased trademarks at an aggregate cash consideration of approximately RMB3,428,000 from a customer. The consideration was settled as to RMB686,000 by cash and RMB2,742,000 via the trade receivables with that customer.

(b) During the year ended 31 December 2009, the additions to prepaid land lease payments of RMB21,695,000 were partially settled via the prepayments for purchase of leasehold land of RMB21,041,000.

(c) On 1 January 2010, Retained Assets of Fujian Shuangfei with aggregate carrying values of approximately RMB57,317,000 were not transferred to the Group and were retained by Fujian Shuangfei. The aggregate cash consideration for the assets and liabilities transferred by Fujian Shuangfei to Frog Prince (China) amounted to RMB90,286,000, were settled via the balances with related parties. They were reflected as deemed appropriations to the equity holders in the combined statement of changes in equity.

27. 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 RMB43,000,000 and RMB57,700,000, respectively. The directors confirm that the banking facilities in relation to the guarantees given by Fujian Shuangfei were fully repaid and settled during the year ended 31 December 2010.

28. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its 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, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	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

29. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

	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

30. RELATED PARTY TRANSACTIONS

(i) Save as disclosed in note 23(ii) in this report, the Group had the following material transactions with related parties during the Relevant Periods:

	Notes	31 December 2008 RMB'000	31 December 2009 RMB'000	31 December 2010 RMB'000
Related companies:				
Sales of products	(a)	8,336	8,073	32,646
Rental expenses	(b)	—	—	3,578
Subcontracting fees	(c)	—	—	8,682
Purchases of raw materials	(d)	—	—	159

Notes:

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

(b) Frog Prince (China) and Fujian Shuangfei, which are controlled by the Controlling Shareholders, 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, Frog Prince (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 Mainland China. The directors confirmed that the rentals charged under equipment and vehicles lease agreements were made on mutually agreed terms.

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

(d) 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 in the ordinary course of business.

(ii) An analysis of the balances with related parties is as follows:

Due from related parties:

	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

Due to related parties:

	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

Particulars of the amounts due from directors and a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Year ended 31 December 2008

	31 December 2008	Maximum amount outstanding during the year	1 January 2008
Name	RMB'000	RMB'000	RMB'000
Directors			
Mr. Li	2,056	2,056	—
Mr. Xie	2,671	2,671	—
Related company			
Shuangfei (USA)	6,004	7,760	—
	10,731	12,487	—

Year ended 31 December 2009

Name	31 December 2009 RMB'000	Maximum amount outstanding during the year RMB'000	1 January 2009 RMB'000
Directors			
Mr. Li	3,825	3,825	2,056
Mr. Xie	3,675	3,675	2,671
Related company			
Shuangfei (USA)	3,591	7,429	6,004
	11,091	14,929	10,731

Year ended 31 December 2010

Name	31 December 2010 RMB'000	Maximum amount outstanding during the year RMB'000	1 January 2010 RMB'000
Directors			
Mr. Li	1,312	3,825	3,825
Mr. Xie	1,261	3,675	3,675
Related company			
Shuangfei (USA)	11,594	22,842	3,591
Fujian Shuangfei	11,977	11,977	—
	26,144	42,319	11,091

Pursuant to the Reorganisation, amounts due from related parties of RMB54,014,000 at 1 January 2010, which represented amounts due from Frog Prince (China), Mr. Li and Mr. Xie of RMB46,514,000, RMB3,825,000 and RMB3,675,000, respectively, by Fujian Shuangfei and had been eliminated on combination at 31 December 2009, were retained by Fujian Shuangfei and had been reflected as deemed appropriations to the equity holders of the Company.

The outstanding balances with related parties are interest-free, unsecured and have no fixed terms of repayment. The directors confirm that the non-trade amounts due from/ to related parties as at 31 December 2010 will be fully settled prior to the proposed listing of the shares of the Company on the Main Board of the Stock Exchange.

(iii) Compensation of key management personnel of the Group

Further details of directors' remuneration are included in note 8 to the Financial Information.

The related party transactions in respect of items (i)(a), (i)(b) and (i)(c) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The related party transactions in respect of item (i)(d) above are one-off transactions and the directors confirmed that these transactions will not be continued in the future after the proposed listing of the shares of the Company on the Main Board of the Stock Exchange.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

The Group's financial assets as at the end of each of the Relevant Periods which are categorised as available-for-sale investments and loans and receivables are as follows:

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	250	550	—
Loans and receivables			
Trade and bills receivables	35,609	74,559	59,149
Amounts due from related parties	10,731	11,091	26,144
Financial assets included in prepayments, deposits and other receivables	10,900	100	506
Pledged deposits	2,997	3,662	2,350
Cash and cash equivalents	27,786	114,442	72,299
	88,023	203,854	160,448

Financial liabilities

The Group's financial liabilities as at the end of each of the Relevant Periods which are categorised as financial liabilities at amortised cost are as follows:

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade and bills payables	9,390	35,270	33,894
Financial liabilities included in other payables and accruals	1,176	4,720	5,064
Interest-bearing bank and other borrowings	45,700	105,728	15,800
Amounts due to related parties	1,218	2,025	89,565
	57,484	147,743	144,323

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. It is, and has been, throughout the years under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces prudent strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's other loan with a floating interest rate.

The Group regularly reviews and monitors 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 the 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	—

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales transactions and denominated in United States dollars (the "USD").

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the 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

Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's 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 the Group's exposure to credit risk arising from trade receivables are disclosed in note 18 in this report.

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and cash equivalents and available banking facilities. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The maturity profile of the Group's financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

	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

	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

	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

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. the Group's policy is to keep the current ratio above 1.

33. EVENTS AFTER THE REPORTING PERIOD

In addition to the subsequent events detailed elsewhere in this report, on 20 June 2011, the companies now comprising the Group completed the Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the section "History and Reorganisation" in the Prospectus and in Appendix VI "Statutory and General Information" to the Prospectus.

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2010.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong